Lukhanji Municipality

ANNUAL REPORT 2010/11

DRAFT (Unedited)

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FORWORD BY THE EXECUTIVE MAYOR

It is always a daunting task to provide a complete account on the responsibilities conferred upon us by the electorate. Most significantly, we do so being quite conscious of the fact that the public deserves its rightful place at the apex of “accountability chain”. In this context, we present this Annual Report of the municipality for the financial year 2010/11 to the community of Lukhanji.

Despite budgetary and financial limitations, Lukhanji continued to provide excellent levels of service delivery and completed numerous capital projects aimed at increasing our ability to service residents and businesses.

For this financial year, we set ourselves a number of key priority areas to focus on for the year which included a full review of all expenditure with the aim of reducing wastage and increasing productivity and efficiency. In this regard I would like to thank Lukhanji’s staff for their dedication and efforts which ensured that service delivery remained at very high levels despite the reduction in expenditure.

During the year, the Budget and Treasury office remained without leadership for the better part of the year. We were fortunate to attract and appoint an efficient CFO during April 2011 and under her leadership we have developed and adopted a Revenue Collection Plan which has been rolled out in part especially insofar as the implementation of an incentive scheme for addressing arrear household debt is concerned. The level of collections from the Whittlesea/Sada area however still requires serious attention.

As part of our overall turnaround plan on revenue enhancement, we offered indemnity to all the indigents and the destitute whilst making some reasonable proposals for those who can afford to pay to do so.

In relation to our efforts to promote tourism in Lukhanji, we have encountered some setbacks during the year. We have worked in collaboration with a number of sector departments especially on projects such as the Bonkolo Dam Development, The Bulhoek Heritage Site and the Chris Hani Heritage road in particular. In respect of the Heritage Route, a new coordinator for the project was only appointed in September 2010. The project came to a virtual standstill.

During the second semester of 2010, we applied for funding for phase two of the Bulhoek Heritage Site project for the 2011/12 financial year. We have also commissioned work on the construction of the Qwabi bridge totalling R3 million.

We had a mixed bag of successes in relation to the delivery of houses. In respect of Nomzamo, we have 337 approved subsidies. By the end of the financial year only 19% of the project was completed. The challenges included 51 outstanding beneficiaries’ application forms which were still with the municipality waiting for

beneficiaries to complete. This came about mainly because of the dispute arising from two beneficiary lists. Through the intervention of Council, the two factions agreed on a process of creating one consolidated beneficiary list to the mutual acceptance of all involved.

On the Sabata Dalindyebo project, we have 450 applications approved with only 109 units completed while in Ezibeleni, from the 1202 approved subsidies, 133 units have been completed. Challenges include:

During the year we have explored a number of alternatives to draw optimal benefit from Expanded Public Works Programme in our efforts to address the chronic problem of unemployment faced by the majority in our community.

The following projects were implemented during the period under review:

- The upgrading of gravel roads - An amount of R5.6 million was spent upgrading gravel roads. Three kilometres are upgraded in each ward, and the three kilometres are decided upon by the ward councillor. Eleven local people are employed in the ward where the Roads Unit team is working creating work for 182 people in 16 wards.
- The Construction of grav-seal roads in Ezibeleni and Sada - 525m of grav-seal was constructed in Ezibeleni and another 820m is under construction in Sada. Total amount spent in 2010 is R1.3 million with 27 jobs created. Construction in Ezibeleni took place over a 4 months period. Construction in Sada started in October 2010.
- The Construction of an Ablution Block in Dumpy Adams at a total cost of R1.5 million.
- Storm-water Upgrade in Ilinge - 625m of a storm-water channel was constructed in Ilinge as an Expanded Public Works Project.
- Construction of Lesseyton Transfer Station.
- Community Lighting - Thirteen high mast lights were constructed in a number of areas in the municipality.

On the aspect of Rural Development we have, in partnership with the Chris Hani District Municipality and the Zulukama Investment Trust launched the Hukuwa Stock Improvement Facility. This project is aimed at assisting small scale stock farmers at realising their potential at stock farming and we remain confident that it will grow in stature to ultimately lead to a decline in the migration of our rural citizens to urban centres and larger towns in search of better living opportunities.

Lukhanji had a peaceful local government elections on 18 May 2011. The new Council was inaugurated on 31 May 2011. The new Council now consists of 54 Councillors of which 21 (38,9%) are female and 33 (61,1%)

male. Political parties are represented as follows:

African National Congress	45	=	83,3%
Democratic Alliance	5	=	9,3%
Congress of the People	2	=	3,7%
Pan Africanist Congress	1	=	1,9%
United Democratic Movement	1	=	1,9%

Despite a lack of resources, Lukhanji's residents, staff and councillors have forged an exciting and unique partnership and as a municipality we are excited by the many opportunities lying ahead. The challenges faced by the municipality are gradually being sorted out and we are looking at a better term from now on.

I wish to thank all Councillors of the municipality and the administration for their dedication to the work of our community in particular and the nation in general.

M NONTSELE

EXECUTIVE MAYOR

STATEMENT BY THE MUNICIPAL MANAGER

It is an exciting experience to be involved in this report and be an agent of delivery in the very noble purpose of ensuring a better life for all the Citizens of Lukhannji.

The compilation of the annual report is a landmark in the institutional history of any organization, more so it affords one the opportunity to stand out of the daily work objectives and reflect on the organisational accomplishments over period under review. The 2010/11 year was as momentous for Lukhanji Municipality as it was frenetic, with many accomplishments, not only as our prime objectives are concerned but also in terms of organizational well being.

In an attempt to fight poverty, the municipality embarked on a number of MIG and EPWP projects has formed to facilitate the development of the basic infrastructure necessary to support the various local economic development initiatives. The integration of all aligned objectives is the key to maximizing efficacy in eliminating the poverty trap that we confront within our municipality. It is of vital importance to pay special attention to the municipality's economic growth through a direct engagement and support of Local Economic Development (LED).

Our municipality prides itself in effective management which is in line with fiscal discipline. It is therefore pleasing to report that during the period under two talented Directors joined our management team to lead our Budget and Treasury Office and the Directorate of Administration and Human Resources respectively. We are therefore confident that emerging out of this period, this discipline will be entrenched even further. The existing sound relationship with our stakeholders confirms our management style which is in line with Chapter IV of the Municipal Systems Act.

My appreciation goes to His Worship the Mayor Cllr M Nontsele and his Mayoral Committee, the entire Council members and the Staff members for their support.

You will agree that the coming period will be a most challenging one. It is my team's fervent desire to make it equally rewarding. The fundamentals are in place, it is up to all of us to drive efficient and effective service delivery in the municipality.

P BACELA

MUNICIPAL MANAGER

CHAPTER 1: INTRODUCTION AND OVERVIEW OF THE MUNICIPALITY

Introduction

The vision of Lukhanji Local Municipality – hereby referred to as Lukhanji, is for Lukhanji to be "a municipality of choice that seeks to work closely with its people to promote good governance, economic growth and sustainable delivery of services". Guided by our five-year development blueprint; the Integrated Development Plan (IDP) we are making an impressive strides in realising this vision. This annual report reports on some of the major achievements in this endeavour during the 2010/2011 financial year.

Locality and Economic Context

Lukhanji is a category B municipality situated within the Chris Hani District of the Eastern Cape Province. It is made up of the combination of the greater Queenstown and surrounding farms and villages, Ilinge, Hewu / Whittlesea and Ntabethemba. Lukhanji is landlocked by the municipalities of Tsolwana and Inkwanca to the west and Emalahleni and Intsika Yethu to the north and Amahlathi to the east.

The above figure shows the locality of Lukhanji Municipality within the within the Eastern Cape Province and Chris Hani District municipal context.

Lukhanji occupies a strategic geographic position within the Chris Hani District municipality and covers approximately 4231 km² in extent. It comprises of 27 wards.

The economic growth rate for Lukhanji experienced fluctuations in the economy from 1996 to mid-2006 with an average 2.1% per annum, which is lower than the national average of 4.5%.

The top five sectors contributing to the local economy significantly are as follows:

- General Government Services
- Finance and Business
- Wholesale, Retail and Trade
- Community and Social Services
- Manufacturing

The main employment sectors that have increased in formal employment included the following:

- General Government Services
- Wholesale, Retail trade and Catering Services
- Construction
- Finance and Business services
- Mining

Unemployment is a huge challenge in the Lukhanji Municipal area. In 2007, the formal unemployment rate for the economically active population was slightly above 41.1% (2,606) in the Lukhanji area, which is similar to the districts rate at 40.6%.

The total population in Lukhanji was estimated at 188 788 people during 2006. The number of households in Lukhanji is estimated at 50 262. Approximately 52% of the population resides in the urban areas within Lukhanji, 22% of the population lives in rural areas and 17% of the population lives in peri-urban areas. About 9% of the population resides in the farm areas within Lukhanji.

There has been an increase in HIV infections within South Africa, Eastern Cape, Chris Hani and Lukhanji Municipal area. In 2007, approximately 5 934 182 (12.4%) people were infected in South Africa, 634 318 (10.1%) people were infected in the Eastern Cape, 73 838 (9.5%) people in the Chris Hani District and 19 991 (11.2%) people were infected with HIV in the Lukhanji Municipal area. These numbers are likely to under-estimate the true extent of HIV/aids infection.

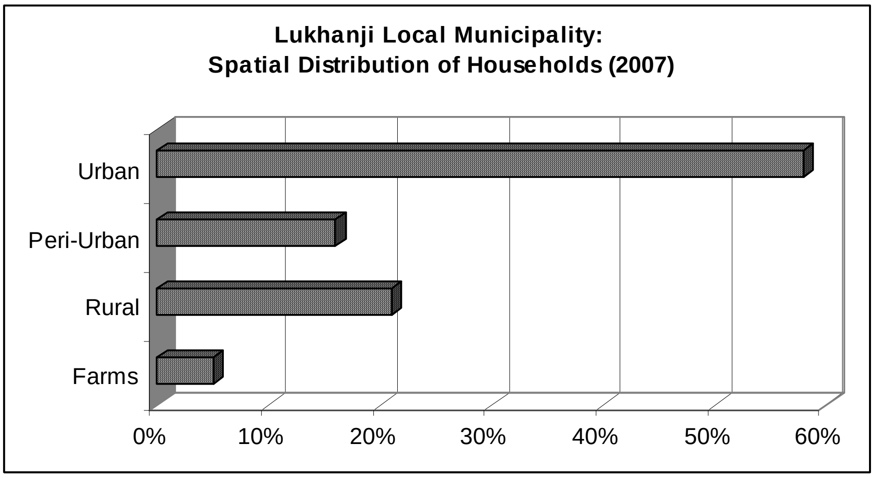
About 47% of the population has completed primary level formal education or less in the Lukhanji Municipal area. This is slightly higher than the Chris Hani Districts level of some primary school level of education, which was at 42% in 2007.

Regarding access to municipal infrastructure provision the picture is as follows:

- 88.7% of households in the area has access to electricity
- 59% of households living in the Lukhanji Municipal area has access to a flush toilet connected to a sewerage system
- 70% of households in Lukhanji Municipal area is serviced by a weekly municipal refuse removal
- 81.1% of households in the area have yard connections (Lukhanji IDP 2008)

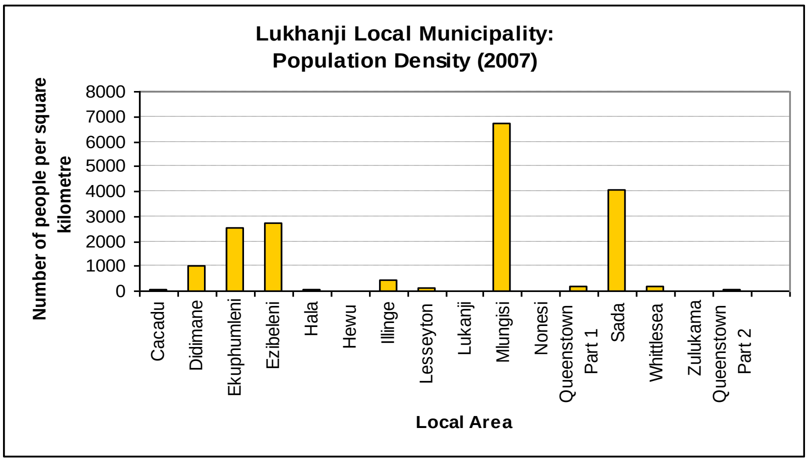
The Lukhanji municipal area has some backlogs and they are as follows:

- Electricity backlog 12%
- Sanitation backlog 13%
- Water backlog 7%
- Refuse backlog 8%
- Housing backlog ± 40 000



(Source: Quantec Database and Silimela Development Services estimates, 2007)

Approximately 58% of the population resides in the urban areas within Lukhanji, 21% of the population lives in rural areas and 16% of the population lives in peri-urban areas. About 5% of the population resides in the farm areas within Lukhanji.



(Source: Quantec Database and Silimela Development Services estimates, 2007)

Settlement patterns throughout the Lukhanji Municipal area vary according to size of population and the location. The five most densely populated areas are as follows:

- Mlungisi 6745 people per square kilometer
- Sada 4040 people per square kilometer
- Ezibeleni 2716 people per square kilometer
- Ekuphumleni 2535 people per square kilometer
- Didimane 989 people per square kilometer

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CHAPTER 2: GOVERNANCE

The legislative (and oversight) function of the Council is vested within the full Council with the Speaker as its chairperson. The passing of by-laws, policies on functions retained by Council and frameworks within which delegated powers must be exercised, remain the function of the full Council except where certain express delegations have been made in this regard.

The Speaker is also responsible for the training of Councillors.

In assisting the Speaker with the performance of the delegated function relating to investigating misconduct of Councillors, enforcing the Code of Conduct for Councillors and enforcing the Standing Orders of Council, a Section 79 Rules Committee was established.

Besides the powers and functions accorded to and imposed on the Executive Mayor in terms of legislation (e.g. the Municipal Systems Act, Municipal Finance Management Act, etc.), the executive function of the Council is delegated to the Executive Mayor as the appointed head of the executive function insofar as the Constitution and practicalities allow. The Executive Mayor is to exercise political oversight of the administration, except for the administrative unit known as "The Office of the Speaker".

In executing and performing the executive functions of Council and the Municipality, the Executive Mayor is assisted by eight Members of the Mayoral Committee each with a particular portfolio.

Governance Structure of Lukhanji

Structure	Responsible for	Oversight Over	Accountable to
Council	Approve policies and budget	Executive Mayor, Mayoral Committee and Audit Committee	Community
Executive Mayor	Policies, budget, outcomes, management and oversight over Municipal Manager	Municipal Manager	Council
Municipal Manager	Outputs and implementation	The administration	Executive Mayor
CFO and Directors	Outputs and implementation	Financial management and operational functions	Municipal Manager

The Lukhanji Council is constituted by 53 (now 54) elected Councillors; 26 Councillors were ward representatives until the local government elections in May 2011 whereafter an additional Ward Councillor came to the fold. 27 Councillorss represent their political parties on a proportional basis. The parties in Council are illustrated in the following table:

Political Representation in Council

PARTY	TOTAL REPRESENTATIVES	
	PRE-MAY 2011	POST- 2011 ELECTIONS
AFRICAN NATIONAL CONGRESS	47	45
CONGRESS OF THE PEOPLE	0	2
DEMOCRATIC ALLIANCE	2	5
PAN AFRICANIST CONGRESS	1	1
UNITED DEMOCRATIC MOVEMENT	2	1
VACANT	1	0
TOTAL	53	54

The work of the Council is coordinated by the Executive Mayor who is elected by the Council. The Executive Mayor is assisted by Councillors in a Mayoral Committee. The Mayoral Committee consists of councillors appointed by the Executive Mayor to serve on the Mayoral Committee. The Executive Mayor together with the Mayoral Committee also oversees the work of the administrative arm. Each member of the Mayoral Committee has a portfolio with specific functions. The following table lists the name and portfolio of each Member of the Mayoral Committee.

Members of the Mayoral Committee

PORTFOLIO	PRE-MAY 2011	POST- 2011 ELECTIONS
Executive Mayor	M Nontsele	M Nontsele
Speaker	M Snyders	M Snyders
Chief Whip	T Jocki	T Jocki
Finance	G Xoseni	M Peter
LED & IDP	B Adoons	D Mjo
Special Programmes	M Dapula	T Jocki
Community Services	A Hulushe	B Mngese
Technical Services	M Gwantshu	N Pambo
Human Settlements	M Gongqa	A Hulushe
Administration & HR	N Keva	B van Heerden

The administration is headed by the Municipal Manager as the Chief Accounting Officer. The Municipal Manager is further responsible and accountable for the formation and development of an economical, effective, efficient and accountable administration as well as the management of the provision service in a sustainable and equitable manner within the municipality. The administration is made up of the following directorates: Budget and Treasury, Administration and Human Resources, Human Settlements, Community Services and Technical Services.

DIVISIONOFLEGISLATIVEANDEXECUTIVE FUNCTIONS

In terms of Chapter 7 of the Constitution of the Republic of South Africa, the legislative and executive functions of a municipality are vested within its Municipal Council. Following a national directive for a more stringent oversight role of Councillors Lukhanji initiated the process of splitting the executive and legislative functions during the last month of the period under review. With the introduction of the Municipal Public Accounts and Oversight Committee (MPAC) and its implied oversight role there has been a further implied split between the two functions.

The MPAC as a structure of the legislative function (the Council) is expected to assist with oversight over the executive function (the Executive Mayor).

The principle of good governance requires that the legislative and oversight function that is to be exercised by a municipal council should be independent of the executive function that has been delegated to the Executive Mayor. This is to avoid undue influence and pressure being exerted by one function upon another and to allow each function the opportunity to operate freely within its delegations.

The legislative (and oversight) function of the Council is vested within the full Council with the Speaker as its chairperson. The passing of by-laws, policies on functions retained by Council and frameworks within which delegated powers must be exercised, remain the function of the full Council except where certain express delegations have been made in this regard.

The Speaker is also responsible for intergovernmental relations, training of Councillors, Councillor capacitation, specific mentorship programmes (e.g. women's mentorship programme),Ward Committees etc.

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CHAPTER 3: SERVICE DELIVERY PERFORMANCE

3.1 FINANCIAL PERFORMANCE

This is a financial performance report of Lukhanji Municipality for the 2010/11 financial year.

Notwithstanding the financial performance challenges that have been experienced these are the highlight of some of the achievement.

- Compliance to GRAP standards
- Ability to supply free basic services
- Ability to pay creditors
- 70% collection rate
- Ability to cope with inflationary pressure as catered for in the budget

3.1.1 **Financial Summary**

Description	2009/10	2010/11			2010/11	
R thousands	Actual	Original Budget	Adjustment budget	Actual	Original Budget	Adjustment budget
Financial Performance						
Property rates	34,674	37,448	37,448	28,778	-30%	-30%
Service charges	142,417	171,875	173,659	130,406	-32%	-33%
Investment revenue	5,110	2,010	18,958	4,071	51%	-366%
Transfers recognised – operational	96,568	108,945	111,512	–	0%	0%
Other own revenue	78,621	78,620	60,355	95,300	18%	37%
Total Revenue (excluding capital transfers and contributions)	357,390	398,897	401,932	258,555	-54%	-55%
Employee costs	92,088	104,136	102,752	97,115	-7%	-6%
Remuneration of councillors	13,323	14,404	14,346	12,269	-17%	-17%
Depreciation & asset impairment	–	–	–		0%	0%
Finance charges	6,591	7,590	7,600	895	-748%	-749%
Materials and bulk purchases	74,107	96,638	111,473	95,089	-2%	-17%
Transfers and grants	12,128	8,714	8,714	–	0%	0%
Other expenditure	158,529	167,005	156,224	130,047	-28%	-20%
Total Expenditure	356,766	398,488	401,109	335,415	-19%	-20%
Surplus/(Deficit)			823		101%	101%

	624	410		(76,860)		
Transfers recognised - capital	–	–	–	–	0%	0%
Contributions recognised - capital & contributed assets	–	–	–	–	0%	0%
Surplus/(Deficit) after capital transfers & contributions	624	410	823	(76,860)	101%	101%
Share of surplus/ (deficit) of associate	–	–	–		0%	0%
Surplus/(Deficit) for the year	624	410	823	(76,860)	101%	101%
<u>Capital expenditure & funds sources</u>						
Capital expenditure	59,146	43,286	43,286	29,140	-49%	-49%
Transfers recognised – capital	49,829	39,576	39,576	25,106	-58%	-58%
Public contributions & donations	–	–	–	–	0%	0%
Borrowing	8,734	–	–	–	0%	0%
Internally generated funds	583	3,709	3,709	4,034	8%	8%
Total sources of capital funds	59,146	43,286	43,286	29,140	-49%	-49%
<u>Financial position</u>						
Total current assets	258,243	273,653	274,066	355,395	23%	23%
Total non current assets	207,296	207,296	207,296	802,003	74%	74%
Total current liabilities	122,043	121,813	121,813	147,641	17%	17%
Total non current liabilities	59,137	55,093	55,093	83,864	34%	34%
Community wealth/Equity	284,360	304,043	304,456	925,892	67%	67%
<u>Cash flows</u>						
Net cash from (used) operating	4,771	5,726	6,121	30,510	81%	80%
Net cash from (used) investing	1,000	–	18	(12,518)	100%	100%
Net cash from (used) financing	(5,147)	(5,316)	(5,316)	(1,022)	-420%	-420%
Cash/cash equivalents at the year end	73,998	74,408	74,821	125,000	40%	40%
<u>Cash backing/surplus reconciliation</u>						
Cash and investments available	74,705	75,115	75,528	27,419	-174%	-175%
Application of cash and investments	(41,353)	(62,079)	2,178	97,580	164%	98%

Balance - surplus (shortfall)	116,058	137,194	73,350	60,881	-125%	-20%
Asset management						
Asset register summary (WDV)	43,286	43,286	43,286	710,711	94%	94%
Depreciation & asset impairment	–	–	–	(15,267)	100%	100%
Renewal of Existing Assets	–	–	–	–	0%	0%
Repairs and Maintenance	–	–	–	(6,720)	100%	100%
Free services						
Cost of Free Basic Services provided	20,969	20,969	20,969	20,055	-5%	-5%
Revenue cost of free services provided	49,511	49,511	20,969	20,055	-147%	-5%
Households below minimum service level					-	-
Water:	-	-	-	-	-	-
Sanitation/sewerage:	-	-	-	-	-	-
Energy:	-	-	-	-	-	-
Refuse:	-	-	-	-	-	-

3.1.2 Grant Performance

Description	2009/2010 (R'000)	2010/2011 (R'000)			2010/2011 Variance	
	Actual	**Budget**	**Adjustment budget**	**Actual**	**Original Budget %**	**Adjustment budget %**
Equitable share	68 291	86 907	86 907	86 907	0%	0%
FMG	1 000	1 250	1 250	1 250	0%	0%
MSIG	750	750	750	750	0%	0%
MIG	19 734	22 017	22 017	22 017	0%	0%
Neighbourhood development partnership grant (Capital)	0	5 000	5 000	0	100%	100%
INEP (Eskom) Grant	0	5 453	5 453	0	100%	100%
Rural Households Infrastructure grant	0	3 000	3 000	0	100%	100%
Neighbourhood development partnership grant	0	500	500	0	100%	100%
Expanded public works programme incentive grant	0	1 037	1 037	0	100%	100%
	89 775	**110 924**				
Provincial Government						
Health Subsidy		9 862	11 052	4 883	50%	56%
Sports and Recreation		2 424	2 424	0	100%	100%

3.1.3 Asset Management

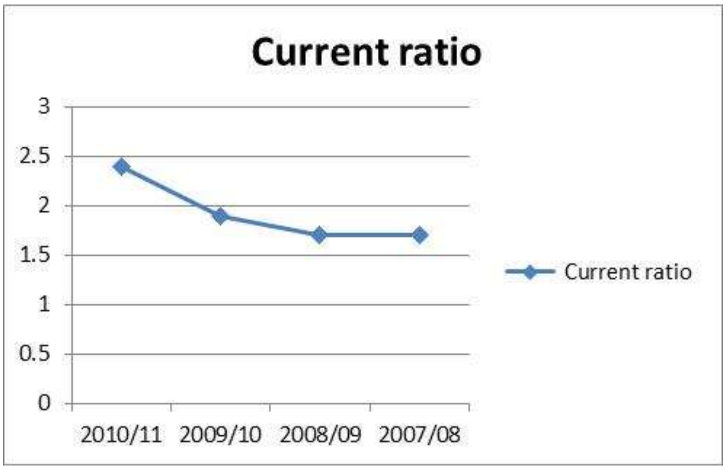
TREATMENT OF THE FOUR LARGEST ASSETS ACQUIRED 2010/11			
Asset 1			
Name	Asset		
Description	Transformer		
Asset Type	Electric Infrastructure		
Key Staff Involved	Electricity		
Staff Responsibilities	Power Supply		
Asset Value	**2008/09**	**2009/10**	**2010/11**
	357 960.00	201 880.58	0.00
Capital Implications			
Future Purpose of Asset	Revenue Generation		
Discribe key Issues			
Polices in Place to Manage Asset	No	No	No
Asset 2			
Name	Asset		
Description	Detector		
Asset Type	Equipment		
Key Staff Involved	Traffic		
Staff Responsibilities	Roadworthy test		
Asset Value	**2008/09**	**2009/10**	**2010/11**
	0.00	0.00	115 710.00
Capital Implications			
Future Purpose of Asset	Revenue Generation		
Discribe key Issues			
Polices in Place to Manage Asset	No	No	No
Asset 3			
Name	Asset		
Description	Generator		
Asset Type	Equipment		
Key Staff Involved	Electricity		
Staff Responsibilities	Power Supply		
Asset Value	**2008/09**	**2009/10**	**2010/11**
	0.00	0.00	102 970.00
Capital Implications			
Future Purpose of Asset	Revenue Generation		
Describe key Issues			
Polices in Place to Manage Asset	No	No	No
Asset 4			
Name	Asset		
Description	Camera		

Asset Type	Equipment		
Key Staff Involved	Traffic		
Staff Responsibilities	Speed Trap		
Asset Value	**2008/09**	**2009/10**	**2010/11**
	0.00	0.00	145 635.00
Capital Implications			
Future Purpose of Asset	Revenue Generation		
Discribe key Issues			
Polices in Place to Manage Asset	No	No	No

3.3.4 Financial Ratios

1. Liquidity Ratio

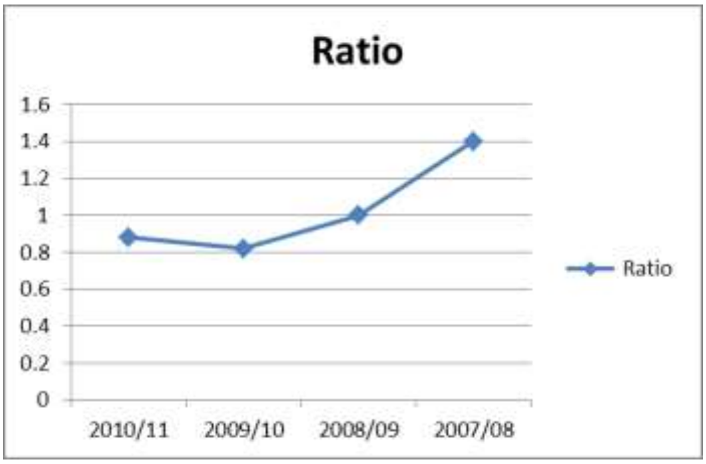
	2010/11	2009/10	2008/09	2007/08
Current ratio	2.4	1.9	1.7	1.7



This indicates that the municipality has the ability to pay its creditors.

2. Cost Coverage

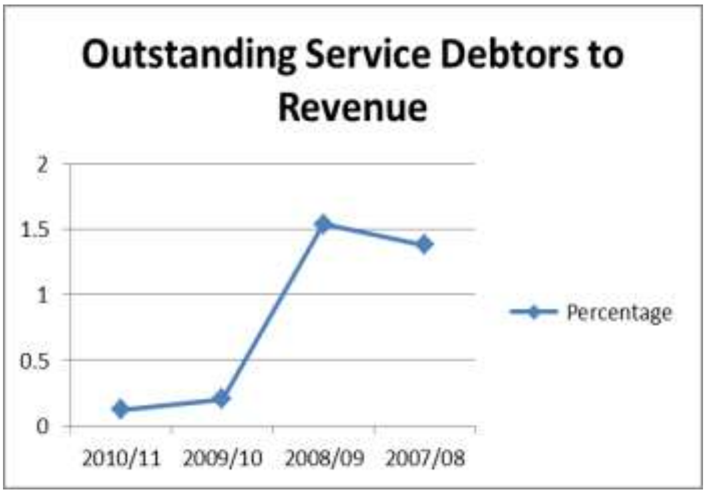
	2010/11	2009/10	2008/09	2007/08
Ratio	0.88	0.82	1	1.4



Indicates months of which expenditure can be covered by cash.

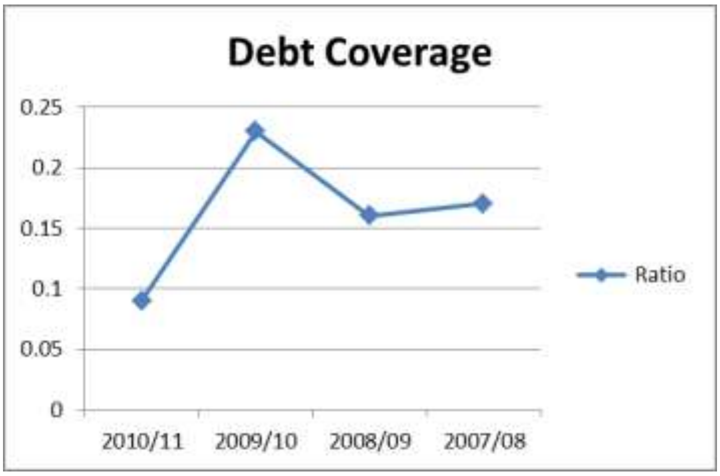
3. Outstanding Service Debtors to Revenue

	2010/11	2009/10	2008/09	2007/08
Percentage	12%	20%	154%	138%



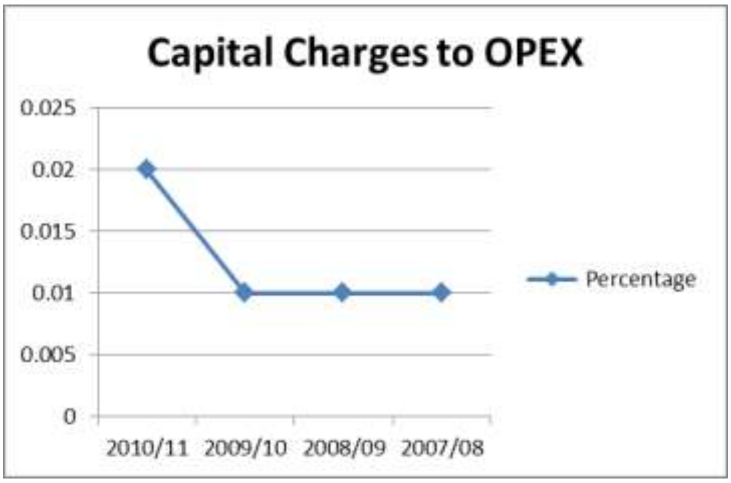
4. Debt Coverage

	2010/11	2009/10	2008/09	2007/08
Ratio	0.09	0.23	0.16	0.17



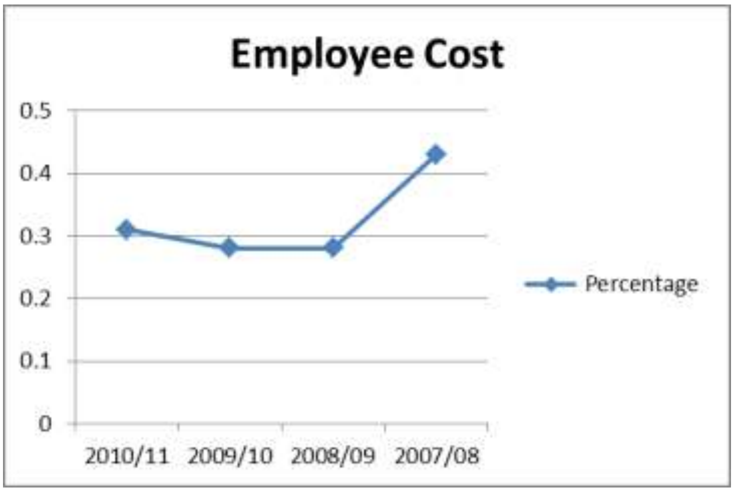
5. Capital Charges to Operating Expenditure

	2010/11	2009/10	2008/09	2007/08
Percentage	2%	1%	1%	1%



6. Employee Cost

	2010/11	2009/10	2008/09	2007/08
Percentage	31%	28%	28%	43%



7. Repairs and Maintenance

	2010/11	**2009/10**	**2008/09**	**2007/08**
Percentage	**2%**	**2%**	**2%**	**3%**

3.2 HUMAN RESOURCE SERVICES

3.2.1 Introduction to Human Resources Services

- To ensure that the organisation functions effectively, it is of utmost importance that it does not only define strategic goals and objectives. Effectiveness implies doing the right thing at the right time. This, however can only be accomplished if the right person is in a right job at the right time to execute the task at hand. To ensure such effectiveness human resources and planning is necessary.
- The mission of the section is to ensure an efficient, motivated and sustainable workforce through human resources, planning, training and development to Lukhanji Municipality.

3.2.2 Three Top Priorities

- To review organogram so as to ensure that it is talking to the mandate of the organisation and aligned with the national trends.
- Review and develop HR policies and procedure manuals so as to enhance good governance and ensure compliance.
- To promote sound labour relations.

The appointment of the Director for the Directorate has improved the performance as strategic issues were addressed like policy development; budgeting and other section requirements have been met. Local Labour Forum has been functional so as to ensure that labour relations are improved.

SERVICE STATISTICS FOR HUMAN RESOURCE SERVICES
TRENDS ON THE TOTAL PERSONNEL EXPENDITURE

The list below reflects the Human Resources actual expenditure in the past three financial years :

- 2008/2009 : R76 157 890
- 2009/2010 : R77 447 576
- 2010/2011 : R54 921 616

3.2.3 Employees: Human Resource Services

Job Level	2009/10	2010/11			
	Employees No.	Posts No.	Employees No.	Vacancies (Fulltime equivalents) No.	Vacancies (as a % of total posts) %
0 – 3	12	12	12	0	0%
4 – 6	47	55	47	8	17%
7 – 9	108	116	108	8	25%
10 – 12	154	198	154	44	14%
13 – 15	95	121	95	26	24%
16 – 18	107	110	107	3	8%
19 – 20	18	18	18	1	6%
Total	**523**	**612**	**523**	**89**	**13%**

3.2.4 Pension & Medical Aids Funds

The SALGBC Collective Agreement on choice of Medical Aid Schemes has been fully implemented and systems put in place to administer them efficiently. The following are the accredited medical aid schemes used :

MEDICAL AID SCHEME	MEMBERS
Bonitas	200
Key Health	12
LA Health	70
Hosmed	13
SAMWU Med	93

PENSION FUND	MEMBERS
Cape Joint Pension & Retirement Fund	161
South African Local Authorities Pension Fund (SALA)	95
South African Municipal Workers Union Provident Fund	22
Municipal Employee's Pension Fund	249
GEPF	1

3.2.5 Employment Equity Ratio

OCCUPATIONAL CATEGORIES	MALES				FEMALES				TOTAL
	A	C	I	W	A	C	I	W	
Top Management	2	1	0	3	2	0	0	0	8
Senior Management	7	2	0	2	1	1	0	3	16
Professionally qualified and experienced specialists and mid-management	7	0	0	3	16	1	0	3	31
Skilled technical and academically qualified workers, junior management, supervisors, foremen and superintendents	47	18	0	13	26	0	0	2	106
Semi-skilled and discretionary decision making	88	18	0	4	38	8	0	20	176
Unskilled and defined decision making	182	2	0	1	108	0	0	0	293
TOTAL PERMANENT	**333**	**41**	**0**	**26**	**191**	**10**	**0**	**28**	**630**
Temporary Employees	0	0	0	0	0	0	0	0	0
GRAND TOTAL	**333**	**41**	**0**	**26**	**191**	**10**	**0**	**28**	**630**

3.2.6 Turn Over Rate 2010/11

Details	Total Appointments as of beginning of Financial Year No.	Terminations during the Financial Year No.	Turn Over Rate *
2008/09	12	8	1.5
2009/10	21	12	1.75
2010/11	33	16	2.1

3.2.7 Policies

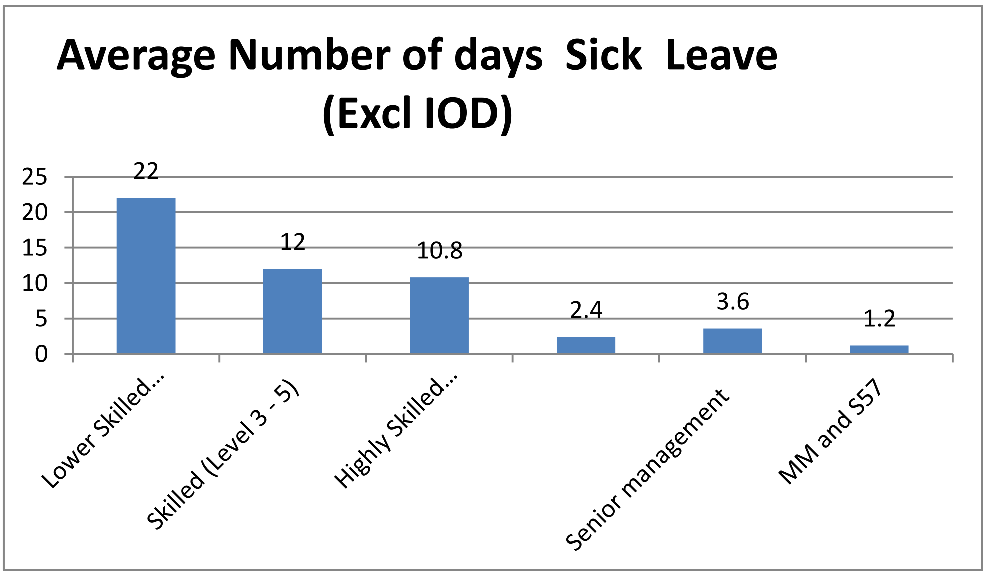
HR Policies and Plans				
	Name of Policy	**Completed %**	**Reviewed %**	**Date adopted by council or comment on failure to adopt**
1	Affirmative Action			
2	Attraction and Retention	100 %	0 %	Adopted Provincially
3	Code of Conduct for employees	100 %	0 %	Adopted from MSA
4	Delegations, Authorization & Responsibility	100 %	0 %	Adopted
5	Disciplinary Cody and Procedures	100 %	100 %	Nationally
6	Essential Services	100 %	100 %	Nationally
7	Employee Assistance / Wellness	100 %	0 %	Not yet developed

8	Employment Equity	0 %	0 %	Adopted
9	Exit Management	100 %	0 %	Yes
10	Grievance Procedures	100 %	100 %	Yes
11	HIV/Aids	100 %	100 %	Yes
12	Human Resource and Development	100 %	100 %	Yes
13	Information Technology	100 %	0	Not yet developed
14	Job Evaluation	0 %	100 %	Yes
15	Leave	100 %	100 %	Yes
16	Occupational Health and Safety	100 %	100 %	Yes
17	Official Housing	100 %	0	No not yet developed
18	Official Journeys	0 %	100 %	Yes
19	Official transport to attend Funerals	100 %	0	Not Developed
20	Official Working Hours and Overtime	0 %	100 %	Yes
21	Organising rights	100 %	100 %	Yes
22	Payroll Deductions	100 %	100 %	Yes
23	Performance Management and Development	100 %	5 %	Only for Section 57
24	Recruitment, Selection and Appointments	5 %	100 %	Yes
25	Remuneration Scales and Allowances	100 %	100 %	Yes
26	Resettlement	100 %	100 %	No
27	Sexual Harrassment	0 %	0 %	Not yet developed
28	Skills Development	100 %	100 %	Yes
29	Smoking	0 %	0 %	No
30	Special Skills	0 %	0 %	Not yet developed
31	Work Organisation	0 %	0 %	Not developed
32	Uniforms and Protective Clothing	100 %	0 %	Yes
33	Other:			

3.2.8 Injuries, Sickness and Suspension

Number and Cost of Injuries on Duty					
Type of Injury	Injury Leave Taken Days	Employees using injury leave No.	Proportion employees using sick leave %	Average Injury per employee Days	Total Estimated Cost R'000
Required basic medical attention only	39	3	8.33%	3	36
Temporary total disablement					
Permanent disablement					
Fatal					
Total	36	3	8.33%	3	60

Number of days and Cost of Sick Leave (excluding injuries on duty)						
Designations	**Total sick leave Days**	**Proportion of sick leave without medical cortication %**	**Employees using leave No.**	**Total employees in post No.**	**Average sick leave per employees Days**	**Estimated cost R`000**
Lower skilled (Level 1 – 2)	33	22%	220	293	0.11	30
Skilled (Level 3 - 5)	33	12%	120	176	0.18	
Highly skilled production (Level 6 – 8)	33	10.8%	72	106	0.31	
High skilled supervision (Level 9 – 12)	33	24%	16	31	1.06	31
Senior management (Levels 13 – 15)	27	3.6%	9	16	1.68	
MM and S57	27	1.29%	3	8	3.37	
Total	186	52%	440	630	6.71	61



All injuries are recorded and investigated, Risk assessment in progress for identifying all hazards and risks.

Number and Period of Suspensions				
Position	**Nature of Alleged Misconduct**	**Date Suspension**	**Date of Disciplinary Action taken or Status of Case and Reasons why not Finalised**	**Date Finalised**
Electrician	Gross Misconduct	08- 01 – 10	Dismissal	31 – 05 – 2011
Expenditure Manager	Gross Misconduct	08 – 10 – 10		15 – 12 – 2011
Expenditure Accountant	Gross Misconduct	08 – 10 – 10		15 – 12- 2011
General Worker	Misconduct		Matter continuing	
Commonage Ranger	Misconduct		Matter continuing	
Director Human Settlement				01 – 04 – 2011

Disciplinary Action Taken on Cases of Financial Misconduct			
Position	**Nature of Alleged Misconduct and Rand value of any loss to the municipality**	**Disciplinary Action taken**	**Date Finalised**
Electrician	Corruption	Dismissal	23-06-10
Clerk	Corruption	Dismissal	15-09-10

COMMENT ON SUSPENSION AND CASE OF FINANCIAL MISCONDUCT :

Suspensions were affected, but no charges were brought against the employees. The allegations have disapproved

COMMENT ON UPGRADED POSTS AND THOSE THAT ARE AT VARIANCE WITH NORMAL PRACTICE:

Due to the task Job Evaluation some positions are now paid more than was originally paid when the Van Der Merwe Job Evaluation System was used.

3.3 LOCAL ECONOMIC DEVELOPMENT (INCLUDING TOURISM AND MARKET PLACES)

3.3.1 Introduction to Economic Development

Lukhanji (Queenstown) is situated within the Chris Hani District of the Eastern Cape Province. It is made up of the combination of the greater Queenstown and surrounding farms and villages, Ilinge, Hewu/Whittlesea and Ntabethemba. Its central location with arguably the largest urban centre in the district attracts many people on a daily basis from abutting municipalities. Queenstown, the retail and commercial centre for myriad small towns in the Eastern Cape such as Cathcart, Dordrecht,Stutterheim, Tarkastad and Elliott, is also an important link between Port Elizabeth,Umtata and East London.

The global economic recession and high inputs costs led to increased food prices and job losses and ultimately consumers experiencing difficulties in food affordability. The consumer price index releases by Statistics SA (date) indicated that food inflation

The prioritization of rural development led to expectations raised throughout the municipality with other rural communities expecting immediate attention and assistance. High unemployment rate and the absence of development in rural areas remain key.

The municipality continued to experience various agricultural related disasters including veldt fires and outbreaks of animal diseases. Even though the Department of Rural Development and Agrarian Reform managed to assist the farmers, the anticipated change in the global climatic condition demands a clear plan to be developed with full participation of all the role players. However the plan will demand various resources to be made available.

The rural farmers in particular, the emerging and small scale farmers continue to receive assistance through the DoA in programmes such as the Nguni cattle, goats and construction of the relevant infrastructure for agricultural purposes, assistance with marketing of various products.

Economic Activity by Sector			
Sector	**2008/2009**	**2009/2010**	**2010/11**
Agriculture	5	5	5
Mining and quarrying	3	3	3
Manufacturing	3	3	4
Wholesale and retail trade	4	4	4
Finance, property etc,	10	10	11
Govt, community and social services	10	10	10
Infrastructure services			

3.3.2 Comment on Local Job Opportunities:

A number of job opportunities were created by the municipality through cooperatives and SMMEs.

The municipality constructed hawker stalls in Whittlesea. A resolution was taken to construct hawker stalls in one area before proceeding to other areas.

The majority of new business growth and investment within the District is likely to take place in Queenstown.

This is already evident in the fact that demand for commercial properties is at an all- time high and the surge in the construction of new, albeit small, retail centres. The opening of Queenstown's first casino in 2007 further underpins Queenstown status as a thriving economic hub and accordingly an increasingly good investment option for property investors.

In spite of Queenstown's position as the economic powerhouse of the region, there appears to be a failure to contribute meaningfully to employment creation and poverty alleviation. Thus, socio-economic development remains a major challenge. In an attempt to address the challenge the municipality has identified the following economic development initiatives.

3.3.3 Tourism

Lukhanji is well endowed with leisure tourism opportunities and well positioned for business tourism

The presence of Local and Provincial Government departments in Lukhanji,and the link between these and other centres in the Province suggests increased traffic by Government and related officials

A focus on tourism would support other activities proposed for the Business Hub

Tourist reception facilities, e.g. Information Centre, central accommodation booking services, etc.

Business Centre (lounge, internet access, printers, phones, etc)

Tourist services, e.g. car rental services, flight booking services, tours, etc

Upgrade of the airport

3.3.4 Partnership with Local Tourism Organisation

The Local Tourism Organisation was launched in 2009 in cooperation with Chris Hani District Municipality and the private sector.

The Tourism White Paper(1996) states that for tourism development to be successful it should be "private sector driven" and support the effective community involvement, while government shall provide the enabling framework for the industry to flourish.

The municipality is responsible for taking care of the public tourism facilities and tourism safety within the municipal area.

The Private sector provided capital to set up the LTO and contributes to the running costs. Product owners make a contribution through membership fees and bring in expertise and input into the LTO

A Memorandum of Understanding between the municipality and the LTO has been developed.

3.3.5 Monuments And Historical Events

3.3.5.1 Liberation Heritage Route

The Liberation Heritage Route is about the reconstruction of the history of the liberation struggle and the exploration of this history. It is about the narrative of events as part of the preservation of national memory for continuity and national identity. The Liberation Heritage Route will interpret the past to serve the needs of the present and the future.

The CHDM has embarked on a tourism development initiative of promoting tourism through the identification of heritage sites such as liberation routes, places of importance, tombs, places with special aesthetic, historic, scientific and environmental values.

3.3.5.2 Bullhoek Massacre Heritage Site

Lukhanji Local Municipality sourced funding from the Department of Tourism for the establishment of a museum, a monument and cultural village. Phase1 of the project is completed and phase 2 of the project has been approved by the Department for the establishment of a tourist attraction centre of the site.

The site is located in the Whittle sea area

3.3.5.3 Bonkolo Dam Tourism

Funding has been sourced for the development of Bonkolo Dam to address the recreational and leisure shortage in the Queenstown area by upgrading the existing amenities to become an all-inclusive recreational area.

3.4 COMMUNITY & SOCIAL SERVICES

3.4.1 Waste Management

The refuse collection functions of the Municipality are administered as follows:

- Refuse within household in residential areas is removed once a week
- Refuse removal in businesses is removed according to the agreed schedule between the Municipality and the business in question (i.e. once, twice or thrice a month)
- Bulk refuse from businesses (industrial areas) is also removed as per agreed schedule between the Municipality and the business
- Cleaning of street and sidewalks is done on a daily basis to ensure that the streets within the CBD are clean
- Cleaning of open illegal dumped areas to ensure that the environment is kept clean and healthy on a regular basis.

These services extend to include Mlungisi, Ezibeleni, Queenstown Households, businesses within CBD and Industrial areas, but do not take into account rural areas of Lukhanji, Farms, Ilinge, Lesseyton and Tylden.

The Municipality has a mandate to:

- Render Waste Collection, removal and disposal services within its area of jurisdiction as per National Environmental Management: Waste Act No 59, 2008.
- Take all lawful, necessary and reasonable practical measures to maintain its jurisdiction at all times in a hygienic condition.
- Ensures that Waste is properly managed from generation to final disposal in an environmental friendly manner.
- Ensure clean and healthy environment.

The Strategic objective of this function are to:

- Provide efficient and affordable refuse removal service within the greater Lukhanji Local Municipality
- Ensure Waste minimisation strategies are in place through separation of waste at source, recycling in the form of opening a buy pack centre and public awareness campaign
- Ensure the implementation of Waste Hierarchy and ensure that waste that cannot be recycled is disposed at a permitted Municipal Landfill Site and is disposed in an environmental manner.

The key issues for 2010/ 11 are projects that addressed the following:

- Community awareness with regard to environmental issues (illegal dumping, cleaning, greening and beautification of open spaces)
- Waste minimisation thought opening of a multi buy back centre (support of co-operatives to form such centre)
- Minimisation of waste disposal to the Municipal Landfill site through recycling

3.4.1.1 Waste Management services delivery strategy and main role players

The Municipality delivers a service only in the towns of Queenstown, Whittlesea and surrounding townships.The rest of the rural areas and farms do not at this time receive any kind of formal refuse removal service. Residential areas in both towns and surrounding townships receive a refuse removal service on a weekly basis. Waste is collected from the curb side in either plastic bags or in 85 l plastic or metal drums. Businesses in town are provided with large metal skips that is removed on a frequency as specified by them (minimum twice per week). The Municipality has permanently appointed personnel that are responsible for the cleansing of the CBD in both Queenstown and Whittlesea.

The main role players involved in Waste Management are as follows:

- Chris Hani District Municipality in terms of funding for Clean Up Awareness Programmes.
- Lukhanji Paper Waste – company that collets recyclable material in town and at the Lukhanji Landfill Site.

The Municipality is rendering the Refuse Removal Service and no Service Providers are being used at the present moment.

The Municipality has got an Integrated Waste Management Plan in place but it needs to be reviewed and the recommendation of the plan has not been implemented.

3.4.1.2 Level and standards in waste management services

AREAS	HOUSEHOLDS PAYING FOR SERVICE	DOMESTIC	INDIGENTS	DESTITUTE	Level of Access and Quality Standard	
					HIGH	LOW
Queenstown, Ezibeleni, Whittlesea & Mlungisi.	28 000	16 415 h/holds	6 834 h/holds.	4750 h/holds.	x	

N.B. The level of access and quality of standard in refuse removal within Lukhanji households is rated as high in the sense that households receive a weekly refuse removal service. Businesses also receive refuse removal service as per agreed schedule with the Municipality (i.e. once, twice, thrice a week) depending on the volumes of refuse generated.

There are newly constructed areas where the service is not being rendered yet because of various reasons (e.g. construction not completed or handover of houses not done yet).

The collection vehicles and compaction equipment are designed according to the SABS standards in order to accommodate this kind of service (i.e. Refuse Compactor Trucks, Landfill Site Compactor, Refuse Skips and Containers).

3.4.1.3 Annual performance as per key performance indicators in waste management services

Indicator Name	Total number of household/customer expected to benefit	Estimated backlogs (actual numbers)	Target set for the f.year under review	Number of HH/customer reached	Percentage of achievement during the year
Percentage of households with access to refuse removal services	**28 000**	**3000**	**29 379**	**28 000**	**80 % in the serviced areas.**

3.4.1.4 Major Challenges in Waste Management services and remedial action

(a) Waste Collection Infrastructure – this involve fleet shortages as the current collection fleet is old and also waste collection receptacles for rental by businesses in town and in industrial areas.

The Municipality must replace and maintain collection fleet for service delivery but funding seem to a problem in most instances.

(b) Management of illegal activities – the Municipality is currently facing the huge problem of illegal dumping of open spaces/areas.

Develop and enforce penalty system for illegal dumping, improve removal of illegally dumped waste, introduce incentive schemes for clean neighbourhoods and establish community watch.

(c) Waste Minimisation – waste minimization programmes like recycling is not as effective as it should be.

This can be solved by encouraging recyclers to form a multi recycling buy – back centre in order to decrease waste deposited on the Landfill Site.

(d) Financial Resources – the Municipality is at the moment experiencing a severe lack of of payment of tariffs that needs to be rectified to provide a cost effective waste management service.

Enforce penalties on non – payment of accounts for service rendered by withholding other services.

(e) Dissemination of information and Community awareness regarding waste management.

Continue to build community awareness through flyers, newspaper notices and roadshows etc.

3.4.2.5 <u>Analysis of the Function</u>

Number and cost to employer of all personnel associated with refuse removal:	**Total**	**R(000s)**
Professional(Engineers/ Consultants)	2	R634 351
Field (Supervisors / Foremen)	7	R1 029 441
Office(Clerical/ Administration)	1	R145 378
Non-professional (blue collar, outside workforce)	105	R6 761 387
Contract	82	122 856
Number of households receiving regular refuse removal services, and frequency and cost of service:		R(000s)
– **Removed by municipality at least once a week**	28 000	2 864 400
– **Removed by municipality less often**	<total>	<cost>
– **Communal refuse dump used**	<total>	<cost>
– **Own refuse dump**	<total>	
– **No rubbish disposal**	<total>	
Total and projected tonnage of all refuse disposed:		
– **Domestic/ Commercial**	118 tons pd	137 t pd

− **Garden**	21 tons per day	30 ton per day
Total number, capacity and life expectancy of refuse disposal sites: − **Domestic/ Commercial** − **Garden**	6	10 years
Detail **Anticipated expansion of refuse removal service:** − **Domestic/ Commercial** − **Garden**	 5026	 514 159
Free Basic Service Provision: − **Quality (number of households affected)** − **Quantum (value to each household)**	 4750 Refuse Removal Service Once a week	 485 925
Total operating cost of solid waste management function		2 593 920
Nature and extent of facilities provided: **-Library services** **-Museums and art galleries** **-Other community halls/facilities** **-Cemeteries and crematoriums** **-Child care (including crèches etc)** **-Aged care (including old age homes, home help)** **-Schools** **-Sporting facilities** **-Parks**	No of facilities 5 1 8 5 Stadiums 1 sport Stadiums 4	 220 500 <number> <number> 1227 <number> <number> <number> <number>
Number and cost to employer of all personnel associated with each community services function: **-Library services** **-Museums and art galleries** **-Other community halls/facilities** **-Cemeteries and crematoriums** **-Child care** **-Aged care** **-Schools** **-Sporting facilities** **-Parks**	 5 <total> <total> 8 <total> <total> <total> 5 4	R(000s) 2933124 <cost> <cost> 1 054 298 <cost> <cost> 1 464 841 5 978 937

3.4.2 Cemeteries

Lukhanji Municipality only deals with the Funeral Undertakers regarding funerals. They apply to us for a grave for a funeral and then provide us with the necessary burial order for the funeral. The Municipality is

responsible for digging the grave and see that everything is in order for the funeral at the cemetery. We also close the grave after the funeral only when requested. We are responsible for the upkeep of the cemeteries.

1 Supervisor

1 Caretaker

1 General worker

13 Gravediggers

3.4.4 Sport Stadiums

Lukhanji Municipality provides sporting facilities to the community of Lukhanji. We have 4 sport stadiums and 1 indoor sport centre. Bookings to utilise these facilities are process at Community Services Admin Office.

The Horticulturist, caretakers (3) and general assistants (9) are responsible for the maintenance of these facilities.

3.4.5 Bonkolo and Berry Dam

These dams are extensively used by the public for fishing and picnics. Community Services is responsible for the maintenance.

3.4.6 Lawrence De Lange Game Reserve

We offer guided tours and educational tours to the community and schools surrounding Queenstown. There is a Lapa and the Sunnyside Picnic area that are hired out for functions. The game reserve is also open to the public during the day for game viewing.

1 Senior Conservation Officer

3 General Workers

3.4.7 Parks

Queenstown has various parks and open spaces which are maintained by the Community Services. The parks are mainly used for passive recreation and students use it to do their studies during the day.

The Superintendent of Parks, Supervisors (2) and General Assistants (63) are responsible for parks maintenance.

3.4.8 HIV & AIDS Strategy

Key Performance Area (s)	Performance During the Year, Performance Targets Against Actual Achieved and Plans to Improve Performance	Current	Target
1. Support the functioning of the AIDS Training, Testing, Information and Counselling Centre that is established as a joint initiative between the Eastern Cape Provincial Department of Health and the Lukhanji Municipality for the coordination of the HIV&AIDS and Sexually Transmitted Infections training programs	**Performance During the Year** Five trainings were conducted on HIV & AIDS Counselling and Testing for the Lukhanji sub-district Two trainings on Sexually Transmitted infections were conducted for the Lukhanji sub-district One training on Provider Initiated Counselling and Testing was conducted for the Lukhanji sub-district **Performance Targets Against Actual Achieved** A total of 103 (100) participants have been trained on HCT/PMTCT, 47 on STI, 13 (20) on PICT giving a total of 163 Health care professionals trained **Plans to Improve Performance** Enhance the intensity of the quarterly meetings with DOH in particular the HIV & AIDS Prevention Manager	**HCT/PMTCT** 103 Trained **STI** 47 Trained **PICT** 13 Trained	100 50 20
2. Re-establishment of the Local AIDS Council (LAC)	**Performance During the Year** At least 3 meetings of the LAC managed to take place with good attendance. The challenge still remains which is that of a lack of the LAC Coordinator. This handicaps the operations and plans of the LAC. The scope of the SPU Manager is too wide and thus makes him unable to give full attention to operations of the LAC. The Local Organising Committee has been able to participate in some of the DAC and DOC programmes that were implemented in		

	other Municipalities. e.g. House hold door to door education campaign in Engcobo **Plans to Improve Performance** - Council to provide a post (HIV & AIDS Coordinator) as a sign of commitment to the fight against HIV & AIDS.		

3.4.9 Traffic Services

Details	2010/2011	2011/2012		2012/2013	
	Actual No.	Estimate No	Actual No.	Estimate No	
Number of road traffic accidents during the year	1800	2000	1900	2400	
Number of By law infringement attended	158	200	160	300	
Number of Traffic Officers in the field on an average day	18	26	17	36	
Number of Traffic Officers on duty on an average day	20	26	20	36	

Employees : Traffic Officers					
Job level	2010/2011	2011/2012			
Police(Traffic) Officers Administrators	Employees No	Posts No	Employees No	Vacancies(fulltime equivalents No	Vacancies(as a % of total posts)
Chief Traffic Officer & Deputy	2	2	2	0	0
Other Traffic Officers					
0-3					
4-6	3	3	3	0	
7-9	4	4	4	0	
10-12	18	18	18	3	
13-15	27	27	27	12	
16-18	11	11	11	4	

Job creation through EPWP* projects		
Details	EPWP Projects No	Jobs created through EPWP projects No
2010/2011	1	12
2011/2012	1	12

3.5 HUMAN SETTLEMENTS AND LAND DEVELOPMENT

3.5.1 Housing and Town Planning Services Delivery Strategy and Main Role-Players

The role of the Municipality in Town Planning is to manage land use and land sales and facilitation of housing development. The Municipality is receiving a number of applications on land management (rezoning, special consent, subdivisions and consolidation) and land sales. The municipality is assisting the public with housing

issues. There is a team of housing administrators and land, Housing Manager, Manager Human Settlements and Land Development and the Director.

The municipality lost its developer status in 2010. All the housing projects of Lukhanji are managed and handled by the department of Human Settlement. The municipality work close with the department of Human Settlement in administrating housing projects within the municipality. Therefore, the department is not able to report on financials as it managed by the Department of Human Settlements.

3.5.2 Challenges

- Current backlog estimated to be plus or minus 40 000
- Informal settlements are growing at an alarming rate and the scarcity of accommodation remains the challenge
- MEC for Human Settlements requested to release the housing function in certain areas to the municipality in order to further expedite the construction of houses
- Lukhanji identified to pilot a community residential unit project
- Ilinge, Newrathwick, Madakeni, Sada and Rural Housing Programme identified by Dept. as priority areas of development within lukhanji local municipality
- Non availability of funding for Town Planning and Survey projects (Spatial Planning and Land Use Management)
- Non availability of funds in the municipality and the Department of Local Government
- Shortage of funding for existing planning and survey project
- Land turner, where some of the land is not owned by the municipality but still under the state, becoming a constraint for the development
- Finalisation of transfers of certain portions of land in Whittlesea
- Transfer of state land in Lessyton
- Transfer of certain land parcels in Gwatyu farms to the municipality and to individual beneficiaries
- Former TBVC state planning ordinances, different legislations for Town Planning making it difficult to deal with land use management
- Slow rate of construction of temporary structures for rectification programme
- Unserviced sites and non-availability of infrastructure.

3.5.3 Level and Standards an Housing and Town Planning Services

The municipality is in the process of developing a year plan for land that is available for purchase and develop. All land is categorised for different types of development. The planned Newrathwick project is to be will be a mixed types of housing, which are low income, middle income and high income housing development. All housing and Land Clerks have yearly targets and they report monthly on their achievements.

3.5.4 Challenges and Remedial Action

A sizeable number of people are still residing in informal settlements. The estimated housing backlog is 40000. There is an urgent need to address this problem and relocate all informal settlement dwellers into service sites with intention to erect top structure on those sites. The Directorate has since identified land to accommodate these people. Thus far, one thousand two hundred (1 200) erven have been planned and pegged with electricity installed in those sites in New Rathwick at Mlungisi Township. The target has been to create three thousand (3 000).

The Department of Human Settlements at Provincial level and Chris Hani District Municipality are working hand in hand with the Municipality to install bulk services to the entire area. Furthermore an application has been submitted to the Department of Human Settlements at Provincial level.

Other challenges are people living in backyards across our township both at Mlungisi and Ezibeleni, even in these areas land has been earmarked for this purpose. At Mlungisi, Sabata Dalinyebo is going to be extended with two thousand (2 000) sites which would be developed in phases. Ezibeleni two (02) different portions of land have been set aside for further development, that is land next to Temba but adjacent to Ikhala College of Education. Another portion is on top of Ezibeleni below the mountain also earmarked for development.

Rural housing is another challenge faced by the municipality. The municipality has since requested the assistance of councilors to identify priorities in those villages where they are most need. That process has kicked off with councilors identifying priorities. There are a sizeable number of villages and farms within the municipality

Linked to other challenges is the growing habit amongst beneficiaries of houses where beneficiaries are selling their houses and return to informal settlements. Other challenges are the illegal occupation of land by members of the public and expect to be provided with services at the end of the day. Another serious challenge on provision of new houses is the level of quality that is produced by contractors. The workmanship is not pleasing at all. In some of the gatherings at provincial level, we have requested the blacklisting of these contractors.

Furthermore is the issue of the level of roads provided in these houses? The roads or funding available for these roads create more burden for the Municipality because the residents in these areas expect the Municipality to upgrade their gravel roads and sometimes demand higher level of roads like tarred roads. Though the Municipality has adopted a programme of gravel seal which is similar to tarred roads, the situation always creates more demands.

Estimated housing units built so far to address the housing backlog of 40 000 since 2006

PROJECT NAME	UNITS BUILT
Sabatha Dalindyebo	450
Ezibeleni	1560
Toiskraal	407
Ilinge	1215
Imvani	160
Nomzamo	337
Zola	366
Xuma	150
Services sites sold to public across Lukhanji	35
Serviced sites sold to developers for residential development	910 square meters (10 units), 39 ha (510 units) 2000 square meters (80 units)
Total	**5280**

3.5.5 Spatial Planning

Lukhanji SDF was last reviewed in 2007, it is outdated. The municipality is looking at reviewing the SDF with the help of the Chris Hani District Municipality. Municipal official and the public do not understand spatial planning. Funding to develop and implement spatial planning is limited. The municipality is in consultation with the Provincial Department of Local Government to train councilors and employees on Spatial Planning and Land Use Management.

3.5.6 Land Use Management

Land use management is still a challenge, especially in so called black townships like, ezibeleni, Mlungisi, Sada etc. Some of the challenges are as following:

- Illegal land uses and structures within the Lukhanji municipal area
- Main problem area in land use are illegal BnB’s, illegal taverns, illegal businesses, illegal additional living units (flats)
- Building without submission of building plans

- Communities, Councillors and staff of Lukhanji Local Municipality not understanding Town planning Regulations and National Building Regulations
- Communities not understanding the infrastructure levy fees and the reason for the fee.

3.5.7 Opportunities and Challenges of Land Use Management

3.5.7.1 Opportunities

- Ability to manage land use
- Formal Town planning
- Determine deferent zones for different development
- Revenue enhancement through town planning applications

3.5.7.2 Challenges

- Illegal Uses
- No understanding of Land Use Management System
- Non availability of property management tool
- No clear understanding of Town Planning by community, municipal employees and Politian's
- No provision of funds for Town Planning Section

3.5.8 Town Planning Applications Received

Applications for Land Use Development			
Detail	**Formalization of Townships (2010/11)**	**Rezoning (2010/11)**	**Built Environment (2010/11)**
Planning applications received	Nil	16	4
Determination made in year of receipt	Nil	13	3
Determination made in following year	Nil	nil	nil
Application withdrawn	Nil	1 not approved due to objections.	1 due to objections received
Applications outstanding at year end	Nil	2	4

3.6 TECHNICAL SERVICES

3.6.1 Introduction

Some of the core functions of the Lukhanji Municipalities includes the delivery of basic municipal services which includes among others, roads, storm water and electricity.

The key Service Achievements of the Technical Services division include:

(1) The provision of electricity to 98% of all H/H within the municipal area;

(2) Regravelling of 48km of rural roads during the 2010/11 financial year; and

(3) The installation of 12 Highmast Lights for the communities of SADA, Ilinge & Ezibeleni Townships.

3.6.2 Basic Services

Basic services within the Lukhanji Municipality such as electricity has almost reached the desired level of 100%. We are working closely with Eskom who is the Service Provider within the rural areas of Lukhanji. It is in the rural areas where there is still a challenge especially in areas where there is no distribution networks closely. Roads is another service that we have given high priority as most of our roads within the rural areas as well as streets and roads within the black suburbs are below basic service level. Due to a lack of capacity and funding we are not keeping up with regular maintenance of streets and roads that has been brought up to standard. Stormwater control in most areas are below basic service level and need our urgent attention. Water and Sanitation Service Delivery is the function of Chris Hani District Municipality. We as Lukhanji Municipality however, has been appointed by the District Municipality as the WSP.

3.6.2.1 Road Transport

The Municipality has an in-house roads unit with a plant to provide and maintain gravel access roads. Plans are under-way to increase the capacity of the roads unit by acquiring two more sets of roads plants. Identified streets in the townships are surfaced using low specification surfacing options like gravseal. This low specification surfacing is intended to reduce gravel roads in townships.

There is also a team that currently attends to the patching of potholes. The short to medium term strategy is that the municipality will set aside R50 million from its operational budget over the next five years to maintain the surfaced roads.

A. Gravel Roads

Three kilometres are constructed or re-gravelled in a ward. In the 2010/11 financial year, 28 km of gravel roads were re-habilitated in 10 wards. Several access roads were graded for funerals where roads are inaccessible. Sport-fields were also graded. The challenge faced by the Roads Unit is the fact that the Municipality has one set of plant which services the vast municipal area. The plant works on difficult terrain and breaks-down from time to time. The municipal procurement process is very rigid and results in long down-times when the plant is broken-down.

The upgrading of gravel roads has been an impressive source of employment creating over 1 400 man-days of work in the various wards where the upgrading is undertaken. 530 m of grav-seal road has been constructed in ward 15 in Ezibeleni Zone 1, creating over 500 man-days of work in this ward. The roads upgrade has increased the benefits to the residents of the numerous rural villages and townships in Lukhanji.

The Municipality is in the process of purchasing two sets of roads plants. This will triple the capacity of the Roads Unit responsible for gravel roads.

B Surfaced Roads:

The Municipality entered into a Memorandum of Agreement with the South African National Roads Agency (SANRAL). SANRAL is busy with the rehabilitation of National Route 6 through Queenstown. To achieve economies of scale SANRAL undertook extra work that gave Queenstown a facelift.

Walkways were constructed around the roundabout and taxi bays. A taxi bay was constructed on the Ezibeleni Road exit. The section of road between the Ezibeleni Road roundabout and the rail crossing was upgraded. 12.2m wide road was upgraded to 15.5m wide 4 lane and the road over the rail bridge was also upgraded.

The Municipality has no entities responsible for roads.

Gravel Road Infrastructure (Kilometres)				
	Total gravel roads	**New gravel roads constructed**	**Gravel roads upgraded to surfaced**	**Gravel roads graded/maintained**
2008/9	38,5	0	0	**38,5**
2009/10	48,9	0	0	**48,9**
2010/11	**28,53**	**0**	**0,53**	**28**

Surfaced Roads Infrastructure (Kilometres)				
	Total surfaced roads	**New surfaced roads**	**Existing surfaced roads re-surfaced**	Surfaced roads maintained
2008/9	0,44	0	0,44	**0**
2009/10	0,595	0	0,595	**0**
2010/11	**0,93**	**0,53**	**0,4**	**0**

Cost of Construction/Maintenance (R' 000)						
	Gravel			Surfaced		
	New	**Gravel - Surfaced**	**Maintained**	**New**	**Re-worked**	Maintained
2008/9	0	5 485	5 134	5 485	3 433	**0**
2009/10	0	0	6 521	0	4 375	**0**
2010/11	**0**	**1 898**	**7 468**	**1 898**	**5 470**	**0**

Road Service Policy Objectives Taken From IDP							
Service Indicators	**Outline Service Targets**	**2009/10**		**2010/11**		**2011/12**	2012/13
		Target	**Actual**	**Target**	**Actual**	**Target**	Target
Maintenance of Gravel Roads	Kilometres of Gravel Roads Maintained	60 km	48,9 km	48 km	28 km	48 km	**144 km**
Surfacing of Gravel Roads	Kilometres of Gravel Roads Surfaced	2 km	0 km	1,4 km	0,53	2 km	**2 km**
Rehabilitation of Surfaced Roads	**Kilometres of Surfaced Roads Rehabilitated**	**500 m**	**595 m**	**0,4 km**	**0,4 km**	**0 km**	**4 km**

Employees: Road Services					
Job Level	**2009/10**	**2010/11**			
	Employees No.	**Posts No.**	**Employees No.**	**Vacancies**	**Vacancies (as a % of total posts)**
0-3	14	14	14	0	**0%**
4-6	6	6	6	0	**0%**
7-9	5	5	5	0	**0%**
10-12	1	1	1	0	**0%**
13-15	1	1	1	0	**0%**
16-18	1	2	1	1	**50%**
19-20	0	0	0	0	
Total	**28**	**29**	**28**	**0**	

Financial Performance 2010/11: Road Services (R' 000)					
Details	2009/10	2010/11			
	Actual	Original Budget	Adjustment Budget	Actual	Variance to Budget
Total Operational Revenue (excluding tariffs)	1 293	1 453	2 256	2 256	**35%**
Expenditure:					
Employees	5 194	5 701	5 373	5 373	**-6%**
Repairs and Maintenance	2 539	2 786	2 495	2 495	**-11%**
Other	4 406	4 836	2 238	2 238	**-116%**
Total Operational Expenditure	12 249	13 377	10 106	10 106	**-32%**
Net Operational (Service) Expenditure	**10 956**	**11 924**	**7 850**	**7 850**	-51%

Capital Expenditure 2010/11: Road Services (R' 000)					
Capital Projects	2010/11				
	Budget	Adjustment Budget	Actual Expenditure	Variance from original budget	Total project value
Total All	6 651	9 801	9 801	32%	**20 767**
Rehabilitation of Rural Gravel Roads, Phase 3	2 440	4 753	4 753	48%	**9 363**
Rehabilitation of Urban Gravel Roads, Phase 4	1 826	2 575	2 575	29%	**5 073**
Queenstown Tar Roads, Phase 3	2 000	2 000	2 000	0	**5 120**
Queenstown Tar Roads, Phase 2	**385**	**473**	**473**	**18%**	**1 211**

3.2.6.2 Comment on the performance of Roads Overall:

The priority of the four largest capital projects was to maintain gravel roads within the municipality and re-worked surfaced roads which had totally collapsed. The municipality uses its own road maintenance plant for the maintenance of gravel roads. In the 2010/11 financial year this plant broke-

down a lot and the municipality had to hire the plant in order to meet its set target. This increased substantially capital project costs.

3.2.6.3 Stormwater Drainage

The Municipality undertakes capital projects that provide storm-water infrastructure in various townships within the municipality. There is also a team of workers employed to unblock and clean storm-water drains and catch-pits. The major challenge is that townships in the municipality were never provided with any proper storm-water drainage system. The storm-water drainage system that exists was not properly maintained.

The Municipality has no entities that render Storm-water Drainage Services.

Storm-water Infrastructure (Kilometres)				
	Total Storm-water measures	**New storm-water measures**	**Storm-water measures upgraded**	**Storm-water measures maintained**
2008/9	1,787	1,787	0	**0**
2009/10	0,625	0,625	0	**0**
2010/11	**1,15**	**0**	**1,15**	**0**

Cost of Construction / Maintenance (R' 000)			
	Storm-water Measures		
	New	**Upgraded**	**Maintained**
2008/9	4 645	0	**0**
2009/10	1 780	0	**0**
2010/11	**0**	**1 029**	**0**

Cost of Construction/Maintenance (R' 000)						
	Gravel			**Surfaced**		
	New	**Gravel - Surfaced**	**Maintained**	**New**	**Re-worked**	**Maintained**
2008/9	0	5 485		5 485	3 433	**0**
2009/10	0	0		0	4 375	**0**
2010/11	**0**	**1 898**	**7 468**	**1 898**	**5 470**	**0**

Storm-water Policy Objectives Taken From IDP							
Service Indicators	**Outline Service Targets**	**2009/10**		**2010/11**		**2011/12**	**2012/13**
		Target	**Actual**	**Target**	**Actual**	**Target**	Target
Provision and Maintenance of Storm-water Infrastructure	**Kilometres of new and maintained Storm-water Infrastructure**	**0,625 km**	**0,625 km**	**1,15 km**	**1,15 km**	**1,15 km**	**3,0 km**

Capital Expenditure 2010/11: Storm-water Infrastructure (R' 000)					
Capital Projects	2010/11				
	Budget	Adjustment Budget	Actual Expenditure	Variance from original budget	Total project value
Total All	**6 651**	**9 801**	**9 801**	**32%**	**20 767**
Lukhanji Urban Storm-water: Ilinge-Phase 2	**998**	**1 029**	**1 029**	**3%**	**2 243**

COMMENT ON THE PERFORMANCE OF STORM-WATER DRAINAGE OVERALL:

The priority of the Lukhanji Urban Storm-water: Ilinge-Phase 2 was to upgrade storm-water infrastructure in Ilinge whilst at the same time maximising employment of the locally unemployed people. The challenge faced though was very low productivity from the local workers.

3.6.3 Electrcity

Although the Lukhanji Municipality are responsible for the delivery of electricity services in the area, Eskom are providing services within the rural areas. The Lukhanji Municipality are providing a full O & M Service to all customers within the Ezibeleni, Mlungisi and Queenstown Areas. As mentioned earlier we have managed to bring our basic service delivery in this sector up to 98 %. It is mostly in the rural areas that we still need to provide a service to our customers. Eskom is wishing hard to attain 100% by 2014. Most of the electrical networks under this jurisdiction of the Lukhanji Municipality is in need of upgrading and refurbishment. We have started with a programme in Ezibeleni and parts of Queenstown to upgrade and refurbish our networks during 2010/11 financial year. Theft of electricity remains our biggest challenge but we are in the process of developing plans to stop customers from tampering and stealing electricity to the amount of 50 Kwh/month are being supplied to all registered Indigents within the Lukhanji Municipality.

Employees: Electricity Services					
Job Level	2009/10	2010/11			
	Employees No.	Posts No.	Employees No.	Vacancies (Fulltime equivalents) No.	Vacancies (as a % of total posts) %
0 – 3	18	27	17	9	33%
4 – 6	5	10	5	5	50%
7 – 9	3	3	2	1	33%
10 – 12	9	12	7	5	42%
13 – 15	0	3	0	3	100%
Total	**35**	**55**	**31**	**22**	

Capital Expenditure 2010/11 : Electricity Services					
	2010/11				
Capital Projects	Budget	Adjustment Budget	Actual Expenditure	Variance from original budget	Total Project Value
Total All	9700	9700	7419	23%	
Project A Ezibeleni Zone 2	3600	3600	2460	32%	3600
Project B Zone D	-	2500	2500	0%	2500
Project C 11KV Switchgear Upgrade	3600	3600	3142	13%	3600

3.6.4 Water Provision

Supply = 26ml **Demand = 23ml**

Lukhanji Municipality is the service provider while Chris Hani District Municipality is the water authority.

Lukhanji Municipality have an annual contract with WSSA to maintain the infrastructure and also running the water treatment plant.

The water purchase and disrtibution to the network are metered with exception of the rural areas. The informal areas are provided with communal standpipes. Whittlesea areas are unmetered except for the businesses and government buildings.

All indigent households are supplied with restrictor-flow meters to provide 10KL/month FBS. The rural areas all receive free diesel / electricity to compensate for the FBS. All maintenance to pumps & motors are done by the Lukhanji Municipality.

The establishment, operation, management and regulation of a portable water supply system, including the services and infrastructure required for the regulation of water conservation, purification, reticulation and distribution bulk supply to local supply points, metering, tariffs setting and debt connection so as to ensure reliable supply to household, including informal households, to support life and personal, hygiene.

The strategic objectives of this function are to: to facilitate 2% reduction in current backlogs by June 2010 provides portable water to all households and to meet the maximum demand. To maintain and operate the network at all times.

The average supply is 26ml and the average demand is 23ml during the financial year a total of 7 bulk meters and PRV's were installed at the various reservoirs to measure flow, as well as 13 Zone meters to eliminate unaccounted water.

3.6.5 Waste Water (Sanitation) Provision

Water and sanitation services are contracted out to WSSA. They are responsible for all water and sanitation services, excluding infrastructure provision as well as the operation and maintenance thereof.

The sewerage functions of the municipality are administered as follows and include:

- Annual contract with WSSA Queenstown, Mlungisi and Ezibeleni all have waterbourne sanitation.
- 10% of Whittlesea have septic tanks in Ext. 2; while the rest of Whittlesea are connected to waterbourne sewerage.
- All stands in Ekuphumleni are reticulared with waterbourne sanitation. Madakeni and Shiloh have pit latrines.
- Informal areas have pit latrines which include a number of VIP's. Both Tylden, Ilinge and Machibini have septic tanks which get sucked out by a sewer tanker on request.

Maintenance of all reticulation falls under WSSA as per contract. This includes sewer blockages, rehabilitation of pipes and manholes, pipe replacement, etc.

The Municipality has a mandate for the establishment, operation, management and regulation of a system including infrastructure and to operate the network at all times by lobbying the district to accelerate delivery of basic sanitation service and infrastructure and to reduce backlog by 3% in June 2010.

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The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SAGAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

CHAPTER 4: AUDITED FINANCIAL STATEMENT AND RELATED FINANCIAL INFORMATION

General Information

Chief Financial Officer	Miss L Ngeno
Accounting Officer	Mr P Bacela
Registered Office	Queenstown
Postal Address	Private Bag X7111 Queenstown 5320
Bankers	ABSA Bank
Auditors	Auditor General

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with South African Statements of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

Although the accounting officer are primarily responsible for the financial affairs of the municipality, he is supported by the municipality's external auditors.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements.

The annual financial statements set out on pages 4 to 67, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2011 and were signed on its behalf by:

Mr P Bacela
Accounting officer

Lukhanji Municipality

Annual Financial Statements for the year ended 30 June 2011

Statement of Financial Position

Figures in Rand	Note(s)	2011	2010
Assets			
Current Assets			
Other financial assets	6	224 908	732 923
Other receivables from exchange transactions	9	106 712 066	84 700 871
Other receivables from non-exchange transactions	10	5 223 900	5 851 307
VAT receivable	11	97 920 198	103 919 599
Trade receivables from exchange transactions	12	20 313 984	31 654 270
Cash and cash equivalents	13	124 999 536	108 029 501
		355 394 592	**334 888 471**
Non-Current Assets			
Investment property	3	91 283 592	91 283 592
Property, plant and equipment	4	710 711 011	698 410 695
Intangible assets	5	8 365	-
		802 002 968	**789 694 287**
Total Assets		**1 157 397 560**	**1 124 582 758**
Liabilities			
Current Liabilities			
Other financial liabilities	14	1 303 479	1 005 833
Finance lease obligation	15	3 490 312	3 270 023
Unspent conditional grants and receipts	16	15 470 542	36 630 946
Trade and other payables from exchange transactions	18	21 576 160	28 138 352
VAT payable	19	96 470 528	100 166 178
Consumer deposits	20	7 937 497	7 602 712
Retirement benefit obligation	8	1 392 768	1 259 568
		147 641 286	**178 073 612**
Non-Current Liabilities			
Employee benefit obligation	8	59 881 693	59 051 893
Other financial liabilities	14	2 133 584	2 500 033
Finance lease obligation	15	4 772 145	4 995 714
Provisions	17	17 076 816	14 831 438
		83 864 238	**81 379 078**
Total Liabilities		**231 505 524**	**259 452 690**
Net Assets		**925 892 036**	**865 130 068**
Net Assets			
Accumulated surplus		925 892 037	865 130 068

Lukhanji Municipality

Annual Financial Statements for the year ended 30 June 2011

Statement of Financial Performance

Figures in Rand	Note(s)	2011	2010
Revenue			
Property rates	23	39 333 529	32 737 811
Service charges	24	130 496 953	105 972 442
Property rates - Interest imposed and collection charges on rates		473 753	1 079 950
Rental of facilities and equipment		1 468 932	1 463 688
Interest received (trading)		8 448 319	15 716 759
Fines		729 472	602 269
Licences and permits		8 644 085	7 777 380
Government grants & subsidies	25	125 331 362	121 847 213
Other income		40 154 862	35 359 067
Interest received - investment	31	5 202 465	6 720 539
Total Revenue		**360 283 732**	**329 277 118**
Expenditure			
Employee related costs	29	(88 619 878)	(74 074 548)
Remuneration of councillors	30	(14 279 120)	(11 374 104)
Administration		8 564 918	6 553 168
Depreciation and amortisation	32	(15 309 174)	(14 631 640)
Impairment loss/ Reversal of impairments		(2 471 135)	-
Finance costs	33	(7 633 763)	(3 785 710)
Debt impairment		(57 530 576)	(42 759 776)
Repairs and maintenance		(6 720 415)	(6 297 596)
Bulk purchases	38	(95 041 763)	(72 255 114)
Contracted services	36	(1 943 285)	(4 853 605)
Grants and subsidies paid	37	(6 267 500)	(24 027 636)
General Expenses	28	(26 742 583)	(28 628 496)
Total Expenditure		**(313 994 274)**	**(276 135 057)**
Gain on disposal of assets and liabilities		9 355 927	3 254 119
Gain/(Loss) on actuarial adjustment		5 236 000	(7 801 605)
Surplus for the year		**60 881 385**	**48 594 575**

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at 01 July 2009	**240 677 413**	**240 677 413**
Changes in net assets		
Surplus for the year	48 594 575	48 594 575
Adjusting cost prices and depreciation	(1 358 696)	(1 358 696)
Investment property take-on	91 283 592	91 283 592
Land and Buildings Asset take-on	490 867 076	490 867 076
Prior period error (Refer to note 43)	(5 117 021)	(5 117 021)
Adjustment on PRMA not recorded in 2010	(1 416 457)	(1 416 457)
Reversal of provision for unused electricity	1 599 586	1 599 586
Total changes	624 452 655	624 452 655
Balance at 01 July 2010	**865 130 068**	**865 130 068**
Changes in net assets		
Prior period error	(119 416)	(119 416)
Net income (losses) recognised directly in net assets	(119 416)	(119 416)
Surplus for the year	60 881 385	60 881 385
Total recognised income and expenses for the year	60 761 969	60 761 969
Total changes	60 761 969	60 761 969
Balance at 30 June 2011	**925 892 037**	**925 892 037**

Cash Flow Statement

Figures in Rand	Note(s)	2011	2010
Cash flows from operating activities			
Receipts			
Grants		101 663 814	134 498 978
Interest income		13 650 784	22 437 298
Other receipts		162 008 443	66 452 222
		277 323 041	223 388 498
Payments			
Employee costs		(102 898 998)	(85 448 652)
Finance costs		(6 684 107)	(2 176 493)
Other payments		(137 230 248)	(65 336 521)
		(246 813 353)	(152 961 666)
Net cash flows from operating activities	39	**30 509 688**	**70 426 832**
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(27 567 667)	(25 294 522)
Proceeds from sale of property, plant and equipment	4	9 355 927	3 254 119
Purchase of other intangible assets	5	(50 190)	-
Proceeds from sale of financial assets		508 015	(26 103)
Proceeds from acturial valuation		5 236 000	(7 801 605)
Net cash flows from investing activities		**(12 517 915)**	**(29 868 111)**
Cash flows from financing activities			
Repayment of other financial liabilities		(68 803)	(921 983)
Finance lease payments		(952 936)	(3 564 434)
Other cash item		-	(1 416 456)
Net cash flows from financing activities		**(1 021 739)**	**(5 902 873)**
Net increase/(decrease) in cash and cash equivalents		**16 970 034**	**34 655 848**
Cash and cash equivalents at the beginning of the year		108 029 501	73 373 654
Cash and cash equivalents at the end of the year	13	**124 999 535**	**108 029 502**

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the effective Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied, are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Loans and receivables

The municipality assesses its loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

Allowance for slow moving, damaged and obsolete stock

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items.

Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including production estimates, supply and demand, together with economic factors such as exchange rates, inflation and interest rates.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 17 - Provisions.

Accounting Policies

1.1 Significant judgements and sources of estimation uncertainty (continued)

Useful lives of infrastructure and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for the infrastructure and other assets. This estimate is based on industry norm or technical advice. Management will amend the depreciation charge where there is a change in the estimated useful lives.

Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 8.

Effective interest rate

The municipality used the most relevant contractual risk rate applicable to each category of assets and liabilities to discount future cash flows. Where none exists the prime interest rate is used to discount future cash flows.

Allowance for impairment on trade and other receivables

On trade and other receivables an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the estimated future cash flows based on the historical payment trend.

1.2 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired at no cost or for a nominal cost, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

If the fair value of investment property under construction is not determinable, it is measured at cost until the earlier of the date it becomes determinable or construction is complete.

Accounting Policies

1.2 Investment property (continued)

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

1.3 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses except for land and buildings wich is carried at revalued amount being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Revaluations are made with sufficient regularity with a maximum period of four years such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

Accounting Policies

1.3 Property, plant and equipment (continued)

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revalutation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings when the asset is derecognised.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings as the asset is used. The amount transferred is equal to the difference between depreciation based on the revalued carrying amount and depreciation based on the original cost of the asset.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Average useful life
Land	Indefinite
Buildings	30 years
Plant and machinery	30 years
Motor vehicles	4 - 15 years
Office equipment	3 - 5 years
Electricity	10 - 60 years
Community assets	
• Land	Indefinite
• Buildings	30 years
• Recreational facilities	20 - 30 years
Leased Assets	5 years
Other assets	
• Land	Indefinite
• Buildings	30 years
• Specialist vehicles	10 years
• Office equipment	3 - 7 years
• Furniture fittings	7 - 10 years
• Emergency equipment	5 - 15 years
• Motor vehicles	3 - 20 years
• Specialist plant and equipment	5 - 15 years
• Computer equipment	3 - 5 years

The residual value, and the useful life and depreciation method of each asset are reviewed annualy. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Accounting Policies

1.3 Property, plant and equipment (continued)

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. These assets are not accounted for as non-current assets held for sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

Residual values have been determined for all movable assets based on the percentage cost or fair value as follows:
10% Office furniture and equipment
20% - 30% Trucks and specialised vehicles
35% Other vehicles
40% Busses
40% Fire engins

1.4 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which itt is located, the obligation for which an municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

1.5 Intangible assets

An asset is identified as an intangible asset when it:
- is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, assets or liability; or
- arises from contractual rights or other legal rights, regardless whether those rights are transferable or separate from the municipality or from other rights and obligations.

An intangible asset is recognised when:
- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

An intangible asset acquired at no or nominal cost, the cost shall be its fair value as at the date of acquisition.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:
- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Accounting Policies

1.5 Intangible assets (continued)

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Computer software, other	3 years

Intangible assets are derecognised:
- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss is the difference between the net disposal proceeds, if any, and the carrying amount. It is recognised in surplus or deficit when the asset is derecognised.

1.6 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:
- cash;
- a residual interest of another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

1.6 Financial instruments (continued)

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Accounting Policies

1.6 Financial instruments (continued)

Classification

The municipality has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Cash and cash equivalents	Financial asset measured at amortised cost
Trade and other receivables from non-exchange transactions	Financial asset measured at amortised cost
Trade and other receivables from exchange transactions	Financial asset measured at amortised cost
Long term receivables	Financial asset measured at amortised cost
Non current investments	Financial asset measured at amortised cost
Other non current investments (shares)	Financial asset measured at fair value
Other	Financial asset measured at fair value

The municipality has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Borrowings	Financial liability measured at amortised cost
Trade and other payables	Financial liability measured at amortised cost
Other	Financial liability measured at amortised cost
Other	Financial liability measured at amortised cost
Other receivables2	Financial liability measured at amortised cost
Other financial liability1	Financial liability measured at fair value
Other financial liability2	Financial liability measured at fair value

Initial recognition

The municipality recognises a financial asset or a financial liability in its statement of financial position when the municipality becomes a party to the contractual provisions of the instrument.

The municipality recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The municipality measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The municipality measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value].

Accounting Policies

1.6 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The municipality measures all financial assets and financial liabilities after initial recognition using the following categories:
- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the municipality establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis.

Reclassification

The entity does not reclassify a financial instrument while it is issued or held unless it is:
- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

Where the entity cannot reliably measure the fair value of an embedded derivative that has been separated from a host contract that is a financial instrument at a subsequent reporting date, it measures the combined instrument at fair value. This requires a reclassification of the instrument from amortised cost or cost to fair value.

If fair value can no longer be measured reliably for an investment in a residual interest measured at fair value, the entity reclassifies the investment from fair value to cost. The carrying amount at the date that fair value is no longer available becomes the cost.

If a reliable measure becomes available for an investment in a residual interest for which a measure was previously not available, and the instrument would have been required to be measured at fair value, the entity reclassifies the instrument from cost to fair value.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and uncollectibility of financial assets

The entity assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

Accounting Policies

1.6 Financial instruments (continued)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

Accounting Policies

1.6 Financial instruments (continued)

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:
- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the entity transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity continue to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

Accounting Policies

1.6 Financial instruments (continued)

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

1.7 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease or the incremental borrowing rate of the municipality.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

Accounting Policies

1.8 Non-current assets held for sale and disposal groups

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets held for sale (or disposal group) are measured at the lower of its carrying amount and fair value less costs to sell.

A non-current asset is not depreciated (or amortised) while it is classified as held for sale, or while it is part of a disposal group classified as held for sale.

Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale are recognised in surplus or deficit.

1.9 Impairment of cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:
- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses annually whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Accounting Policies

1.9 Impairment of cash-generating assets (continued)

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

Basis for estimates of future cash flows

In measuring value in use the municipality:

- base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring's or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and
- estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

Composition of estimates of future cash flows

Estimates of future cash flows include:

- projections of cash inflows from the continuing use of the asset;
- projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and
- net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

Estimates of future cash flows exclude:

- cash inflows or outflows from financing activities

The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life is the amount that the municipality expects to obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.

1.9 Impairment of cash-generating assets (continued)

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

Accounting Policies

1.9 Impairment of cash-generating assets (continued)

Reversal of impairment loss

The municipality assess annually whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:
- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.10 Impairment of non-cash-generating assets

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:
- the period of time over which an asset is expected to be used by the municipality; or

1.10 Impairment of non-cash-generating assets (continued)

- the number of production or similar units expected to be obtained from the asset by the municipality.

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses annually whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also test a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of an asset is the present value of the asset's remaining service potential.

The present value of the remaining service potential of an asset is determined using the following approach:

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

Restoration cost approach

Restoration cost is the cost of restoring the service potential of an asset to its pre-impaired level. The present value of the remaining service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment. The latter cost is determined as the depreciated reproduction or replacement cost of the asset, whichever is lower.

Service units approach

The present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment, to conform to the reduced number of service units expected from the asset in its impaired state. The current cost of replacing the remaining service potential of the asset before impairment is determined as the depreciated reproduction or replacement cost of the asset before impairment, whichever is lower.

1.10 Impairment of non-cash-generating assets (continued)

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Reversal of an impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.11 Share capital / contributions from owners

An equity instrument is any contract that evidences a residual interest in the assets of an municipality after deducting all of its liabilities.

1.12 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of surplus sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

Accounting Policies

1.12 Employee benefits (continued)

Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the entity's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

Defined benefit plans

For defined benefit plans the cost of providing the benefits is determined using the projected credit method.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan.

Consideration is given to any event that could impact the funds up to end of the reporting period where the interim valuation is performed at an earlier date.

Past service costs are recognised immediately to the extent that the benefits are already vested, and are otherwise amortised on a straight line basis over the average period until the amended benefits become vested.

To the extent that, at the beginning of the financial period, any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the projected benefit obligation and the fair value of the plan assets (the corridor), that portion is recognised in surplus or deficit over the expected average remaining service lives of participating employees. Actuarial gains or losses within the corridor are not recognised.

Gains or losses on the curtailment or settlement of a defined benefit plan is recognised when the entity is demonstrably committed to curtailment or settlement.

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The amount recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service costs, and reduces by the fair value of plan assets.

Any asset is limited to unrecognised actuarial losses and past service costs, plus the present value of available refunds and reduction in future contributions to the plan.

Other post retirement obligations

The entity provides post-retirement health care benefits, housing subsidies and gratuities upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations. The entity also provides a gratuity and housing subsidy on retirement to certain employees. An annual charge to income is made to cover both these liabilities.

1.13 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

Accounting Policies

1.13 Provisions and contingencies (continued)

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If an municipality has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying of at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding agreement.

After their initial recognition contingent liabilities recognised in business combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 41.

1.14 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Accounting Policies

1.14 Revenue from exchange transactions (continued)

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by the proportion that costs incurred to date bear to the total estimated costs of the transaction.

Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

Dividends, or their equivalents are recognised, in surplus or deficit, when the municipality's right to receive payment has been established.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

1.15 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Accounting Policies

1.15 Revenue from non-exchange transactions (continued)

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Transfers

Apart from services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

Accounting Policies

1.15 Revenue from non-exchange transactions (continued)

Bequests

Bequests that satisfy the definition of an asset are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality, and the fair value of the assets can be measured reliably.

Gifts and donations, including goods in-kind

Gifts and donations, including goods in-kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Services in-kind

Services in-kind are not recognised.

1.16 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.17 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset until such time as the asset is ready for its intended use. The amount of borrowing costs eligible for capitalisation is determined as follows:

- Actual borrowing costs on funds specifically borrowed for the purpose of obtaining a qualifying asset less any investment income on the temporary investment of those borrowings.
- Weighted average of the borrowing costs applicable to the municipality on funds generally borrowed for the purpose of obtaining a qualifying asset. The borrowing costs capitalised do not exceed the total borrowing costs incurred.

The capitalisation of borrowing costs commences when all the following conditions have been met:

- expenditures for the asset have been incurred;
- borrowing costs have been incurred; and
- activities that are necessary to prepare the asset for its intended use or sale are undertaken.

When the carrying amount or the expected ultimate cost of the qualifying asset exceeds its recoverable amount or recoverable service amount or net realisable value, the carrying amount is written down or written off in accordance with the accounting policy on Impairment of Assets as per accounting policy number 1.9 and 1.10. In certain circumstances, the amount of the write-down or write-off is written back in accordance with the same accounting policy.

Capitalisation ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

When the municipality completes the construction of a qualifying asset in parts and each part is capable of being used while construction continues on other parts, the entity ceases capitalising borrowing costs when it completes substantially all the activities necessary to prepare that part for its intended use or sale.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

1.18 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.19 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

Accounting Policies

1.19 Unauthorised expenditure (continued)

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.20 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.21 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic municipality's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.22 Use of estimates

The preparation of annual financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

1.23 Presentation of currency

These annual financial statements are presented in South African Rand which is the functional currency of the municipality.

1.24 Offsetting

Assets, liabilities, revenue and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP

1.25 Investments

Where the carrying amount of an investment is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount and an impairment loss is charged to the statement of financial performance.

1.26 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

1.27 Budget information

The Municipality is typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by the municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The annual financial statements and the budget are not on the same basis of accounting therefore a reconciliation between the statement of financial performance and the budget have been included in the annual financial statements. Refer to note .

Accounting Policies

1.28 Value added tax

The municipality accounts for VAT on the cash basis.

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

2. New standards and interpretations

2.1 Standards and Interpretations early adopted

The municipality has chosen to early adopt the following standards and interpretations:

2.2 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2011 or later periods:

GRAP 18: Segment Reporting

Segments are identified by the way in which information is reported to management, both for purposes of assessing performance and making decisions about how future resources will be allocated to the various activities undertaken by the municipality. The major classifications of activities identified in budget documentation will usually reflect the segments for which an entity reports information to management.

Segment information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of an entity that provides specific outputs or achieves particular operating objectives that are in line with the municipality's overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved, by an entity within a particular region.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 April 2011.

The municipality expects to adopt the standard for the first time in the 2012 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 23: Revenue from Non-exchange Transactions

Revenue from non-exchange transactions arises when an entity receives value from another entity without directly giving approximately equal value in exchange. An asset acquired through a non-exchange transaction shall initially be measured at its fair value as at the date of acquisition.

This revenue will be measured at the amount of increase in net assets recognised by the municipality.

An inflow of resources from a non-exchange transaction recognised as an asset shall be recognised as revenue, except to the extent that a liability is recognised for the same inflow. As an entity satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it will reduce the carrying amount of the liability recognised as recognise an amount equal to that reduction.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality expects to adopt the standard for the first time in the 2013 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 104: Financial Instruments

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

The standard prescribes recognition, measurement, presentation and disclosure requirements for financial instruments. Financial instruments are defined as those contracts that results in a financial asset in one municipality and a financial liability or residual interest in another municipality. A key distinguishing factor between financial assets and financial liabilities and other assets and liabilities, is that they are settled in cash or by exchanging financial instruments rather than through the provision of goods or services.

One of the key considerations in initially recognising financial instruments is the distinction, by the issuers of those instruments, between financial assets, financial liabilities and residual interests. Financial assets and financial liabilities are distinguished from residual interests because they involve a contractual right or obligation to receive or pay cash or another financial instrument. Residual interests entitle an municipality to a portion of another municipality's net assets in the event of liquidation and, to dividends or similar distributions paid at management's discretion.

In determining whether a financial instrument is a financial asset, financial liability or a residual interest, an municipality considers the substance of the contract and not just the legal form.

Where a single instrument contains both a liability and a residual interest component, the issuer allocates the instrument into its component parts. The issuer recognises the liability component at its fair value and recognises the residual interest as the difference between the carrying amount of the instrument and the fair value of the liability component. No gain or loss is recognised by separating the instrument into its component parts.

Financial assets and financial liabilities are initially recognised at fair value. Where an municipality subsequently measures financial assets and financial liabilities at amortised cost or cost, transactions costs are included in the cost of the asset or liability.

The transaction price usually equals the fair value at initial recognition, except in certain circumstances, for example, where interest free credit is granted or where credit is granted at a below market rate of interest.

Concessionary loans are loans either received by or granted to another municipality on concessionary terms, e.g. at low interest rates and flexible repayment terms. On initial recognition, the fair value of a concessionary loan is the present value of the agreed contractual cash flows, discounted using a market related rate of interest for a similar transaction. The difference between the proceeds either received or paid and the present value of the contractual cash flows is accounted for as non-exchange revenue by the recipient of a concessionary loan in accordance with Standard of GRAP on Revenue from Non-exchange Revenue Transactions (Taxes and Transfers), and using the Framework for the Preparation and Presentation of Financial Statements (usually as an expense) by the grantor of the loan.

Financial assets and financial liabilities are subsequently measured either at fair value or, amortised cost or cost. An municipality measures a financial instrument at fair value if it is:

- a derivative;
- a combined instrument designated at fair value, i.e. an instrument that includes a derivative and a non-derivative host contract;
- held-for-trading;
- a non-derivative instrument with fixed or determinable payments that is designated at initial recognition to be measured at fair value;
- an investment in a residual interest for which fair value can be measured reliably; and
- other instruments that do not meet the definition of financial instruments at amortised cost or cost.

Derivatives are measured at fair value. Combined instruments that include a derivative and non-derivative host contract are accounted for as follows:

- Where an embedded derivative is included in a host contract which is a financial instrument within the scope of this Standard, an entity can designate the entire contract to be measured at fair value or, it can account for the host contract and embedded derivative separately using GRAP 104. An municipality is however required to measure the entire instrument at fair value if the fair value of the derivative cannot be measured reliably.
- Where the host contract is not a financial instrument within the scope of this Standard, the host contract and embedded derivative are accounted for separately using GRAP 104 and the relevant Standard of GRAP.

Financial assets and financial liabilities that are non-derivative instruments with fixed or determinable payments, for example deposits with banks, receivables and payables, are measured at amortised cost. At initial recognition, an municipality can however designate such an instrument to be measured at fair value.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

An municipality can only measure investments in residual interests at cost where the fair value of the interest cannot be determined reliably.

Once an municipality has classified a financial asset or a financial liability either at fair value or amortised cost or cost, it is only allowed to reclassify such instruments in limited instances.

An entity derecognises a financial asset, or the specifically identified cash flows of an asset, when:
- the cash flows from the asset expire, are settled or waived;
- significant risks and rewards are transferred to another party; or
- despite having retained significant risks and rewards, an municipality has transferred control of the asset to another municipality.

An municipality derecognises a financial liability when the obligation is extinguished. Exchanges of debt instruments between a borrower and a lender are treated as the extinguishment of an existing liability and the recognition of a new financial liability. Where an municipality modifies the term of an existing financial liability, it is also treated as the extinguishment of an existing liability and the recognition of a new liability.

An municipality cannot offset financial assets and financial liabilities in the statement of financial position unless a legal right of set-off exists, and the parties intend to settle on a net basis.

GRAP 104 requires extensive disclosures on the significance of financial instruments for an municipality's statement of financial position and statement of financial performance, as well as the nature and extent of the risks that an municipality is exposed to as a result of its annual financial statements. Some disclosures, for example the disclosure of fair values for instruments measured at amortised cost or cost and the preparation of a sensitivity analysis, are encouraged rather than required.

GRAP 104 does not prescribe principles for hedge accounting. An municipality is permitted to apply hedge accounting, as long as the principles in IAS 39 are applied.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 April 2011.

The municipality expects to adopt the standard for the first time in the 2012 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

GRAP 24: Presentation of Budget Information in the Financial Statements

Subject to the requirements of paragraph .19, an entity shall present a comparison of the budget amounts for which it is held publicly accountable and actual amounts either as a separate additional financial statement or as additional budget columns in the financial statements currently presented in accordance with Standards of GRAP. The comparison of budget and actual amounts shall present separately for each level of legislative oversight:
- the approved and final budget amounts;
- the actual amounts on a comparable basis; and
- by way of note disclosure, an explanation of material differences between the budget for which the municipality is held publicly accountable and actual amounts, unless such explanation is included in other public documents issued in conjunction with the financial statements, and a cross reference to those documents is made in the notes.

Where an entity prepares its budget and annual financial statements on a comparable basis, it includes the comparison as an additional column in the primary annual financial statements. Where the budget and annual financial statements are not prepared on a comparable basis, a separate statement is prepared called the 'Statement of Comparison of Budget and Actual Amounts'. This statement compares the budget amounts with the amounts in the annual financial statements adjusted to be comparable to the budget.

A comparable basis means that the budget and annual financial statements:
- are prepared using the same basis of accounting i.e. either cash or accrual;

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

- include the same activities and entities;
- use the same classification system; and
- are prepared for the same period.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 103: Heritage Assets

GRAP 103 defines heritage assets as assets which have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

Certain heritage assets are described as inalienable items thus assets which are retained indefinitely and cannot be disposed of without consent as required by law or otherwise.

A heritage asset should be recognised as an asset only if:

- it is probable that future economic benefits or service potential associated with the asset will to the municipality; and
- the cost of fair value of the asset can be measured reliably.

The standard required judgment in applying the initial recognition criteria to the specific circumstances surrounding the entity and the assets.

GRAP 103 states that a heritage asset should be measured at its cost unless it is acquired through a non-exchange transaction which should then be measured at its fair value as at the date of acquisition.

In terms of the standard, an entity has a choice between the cost and revaluation model as accounting policy for subsequent recognition and should apply the chosen policy to an entire class of heritage assets.

The cost model requires a class of heritage assets to be carried at its cost less any accumulated impairment losses.

The revaluation model required a class of heritage assets to be carried at its fair value at the date of the revaluation less any subsequent impairment losses. The standard also states that a restriction on the disposal of a heritage asset does not preclude the entity from determining the fair value.

Grap 103 prescribes that when determining the fair value of a heritage asset that has more than one purpose, the fair value should reflect both the asset's heritage value and the value obtained from its use in the production or supply of goods or services or for administrative purposes.

If a heritage asset's carrying amount is increased as a result of a revaluation, the increase should be credited directly to a revaluation surplus. However, the increase should be recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same heritage asset previously recognised in surplus or deficit. If a heritage asset's carrying amount is decreased as a result of a revaluation, the decrease should be recognised in surplus or deficit. However, the decrease should be debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that heritage asset.

Grap 103 states that a heritage asset should not be depreciated but an entity should assess at each reporting date whether there is an indication that it may be impaired.

In terms of the standard, compensation from third parties for heritage assets that have been impaired, lost or given up, should be included in surplus or deficit when the compensation becomes receivable.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

For a transfer from heritage assets carried at a revalued amount to property, plant and equipment, investment property, inventories or intangible assets, the asset's deemed cost for subsequent accounting should be its revalued amount at the date of transfer. The entity should treat any difference at that date between the carrying amount of the heritage asset and its fair value in the same way as a revaluation in accordance with this Standard. If an item of property, plant and equipment or an intangible asset carried at a revalued amount, or investment property carried at fair value is reclassified as a heritage asset carried at a revalued amount, the entity applies the applicable Standard of GRAP to that asset up to the date of change. The entity treats any difference at that date between the carrying amount of the asset and its fair value in accordance with the applicable Standard of GRAP relating to that asset. For a transfer from investment property carried at fair value, or inventories to heritage assets at a revalued amount, any difference between the fair value of the asset at that date and its previous carrying amount should be recognised in surplus or deficit.

The carrying amount of a heritage asset should be derecognised:
- on disposal, or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset should be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the heritage asset. Such difference is recognised in surplus or deficit when the heritage asset is derecognised.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 21: Impairment of non-cash-generating assets

Non-cash-generating assets are assets other than cash-generating assets.

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

An municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, an entity estimates the recoverable service amount of the asset.

The present value of the remaining service potential of a non-cash-generating asset is determined using one of the following approaches:
- Depreciated replacement cost approach
- Restoration cost approach
- Service units approach

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss. An impairment loss is recognised immediately in surplus or deficit. Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

An municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, an entity estimates the recoverable service amount of that asset.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 April 2012.

2. New standards and interpretations (continued)

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 26: Impairment of cash-generating assets

Cash-generating assets are those assets held by an municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

An entity assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, an municipality estimates the recoverable amount of the asset. When estimating the value in use of an asset, an municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and an municipality applies the appropriate discount rate to those future cash flows.

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss. An impairment loss is recognised immediately in surplus or deficit. Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, an municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, an entity use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

An municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, an municipality estimates the recoverable amount of that asset.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 April 2012.

2. New standards and interpretations (continued)

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 25: Employee benefits

The objective of GRAP25 is to prescribe the accounting and disclosure for employee benefits. The Standard requires an municipality to recognise:

- a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and
- an expense when an municipality consumes the economic benefits or service potential arising from service provided by an employee in exchange for employee benefits.

GRAP25 must be applied by an employer in accounting for all employee benefits, except share based payment transactions.

GRAP25 defines, amongst others, the following:

- Employee benefits as all forms of consideration given by an municipality in exchange for service rendered by employees;
- Defined contribution plans as post-employment benefit plans under which an municipality pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods;
- Defined benefit plans as post-employment benefit plans other than defined contribution plans;
- Multi-employer plans as defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that:
  - pool the assets contributed by various entities that are not under common control; and
  - use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the municipality that employs the employees concerned;
- Other long-term employee benefits as employee benefits (other than post-employment benefits and termination benefits) that is not due to be settled within twelve months after the end of the period in which the employees render the related service;
- Post-employment benefits as employee benefits (other than termination benefits) which are payable after the completion of employment;
- Post-employment benefit plans as formal or informal arrangements under which an municipality provides post-employment benefits for one or more employees;
- Short-term employee benefits as employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service;
- State plans as plans other than composite social security programmes established by legislation which operate as if they are multi-employer plans for all entities in economic categories laid down in legislation;
- Termination benefits as employee benefits payable as a result of either:
  - an entity's decision to terminate an employee's employment before the normal retirement date; or
  - an employee's decision to accept voluntary redundancy in exchange for those benefits;
- Vested employee benefits as employee benefits that are not conditional on future employment.

The standard states the recognition, measurement and disclosure requirements of:

- Short-term employee benefits;
  - All short-term employee benefits;
  - Short-term compensated absences;
  - Bonus, incentive and performance related payments;
- Post-employment benefits: Defined contribution plans;
- Other long-term employee benefits;
- Termination benefits.

The standard states Post-employment benefits: Distinction between defined contribution plans and defined benefit plans:

- Multi-employer plans;
- Defined benefit plans where the participating entities are under common control;
- State plans;
- Composite social security programmes;

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

- Insured benefits.

The standard states, for Post-employment benefits: Defined benefit plans, the following requirements:

- Recognition and measurement;
- Presentation;
- Disclosure;
- Accounting for the constructive obligation;
- Statement of financial position;
- Asset recognition ceiling;
- Asset recognition ceiling: When a minimum funding requirement may give rise to a liability;
- Statement of financial performance.

The standard prescribes recognition and measurement for:

- Present value of defined benefit obligations and current service cost:
  - Actuarial valuation method;
  - Attributing benefits to periods of service;
  - Actuarial assumptions;
  - Actuarial assumptions: Discount rate;
  - Actuarial assumptions: Salaries, benefits and medical costs;
  - Actuarial gains and losses;
  - Past service cost.
- Plan assets:
  - Fair value of plan assets;
  - Reimbursements;
  - Return on plan assets.

The standard also deals with Entity combinations and Curtailments and settlements.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 April 2011.

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

3. Investment property

	2011			2010		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	91 283 592	-	91 283 592	91 283 592	-	91 283 592

Reconciliation of investment property - 2011

	Opening balance	Total
Investment property	91 283 592	91 283 592

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

3. Investment property (continued)

Reconciliation of investment property - 2010

	Opening balance	Transfers	Total
Investment property	-	91 283 592	91 283 592

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

No Investment Properties were pledged as security

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Operational expenditure regarding investment property earning rentals and those that are not earning rentals are not available.

At reporting date there are no cumulative fair value changes in the surplus and deficit for investment properties.

There are no restrictions on investment properties.

There are no contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements

Rental income from investment properties in respect of monthly and annual leases amounted to R 1,889,852

4. Property, plant and equipment

	2011			2010		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	331 573 305	-	331 573 305	331 573 305	-	331 573 305
Buildings	159 293 772	(10 277 018)	149 016 754	159 293 772	(5 138 509)	154 155 263
Plant and machinery	8 803 574	(2 748 456)	6 055 118	8 519 967	(2 037 528)	6 482 439
Furniture and fixtures	2 498 842	(1 472 766)	1 026 076	2 481 007	(968 473)	1 512 534
Motor vehicles	211 691	(100 750)	110 941	211 691	(71 681)	140 010
Office equipment	1 986 240	(1 401 942)	584 298	1 986 240	(855 756)	1 130 484
Emergency equipment	29 932	(15 981)	13 951	29 932	(11 003)	18 929
Roads	130 420 602	(11 324 505)	119 096 097	109 231 127	(7 018 230)	102 212 897
Landfill sites	7 538 455	-	7 538 455	7 538 455	-	7 538 455
Electricity	90 666 956	(6 454 881)	84 212 075	88 062 565	(4 213 562)	83 849 003
Bins and containers	911 548	(91 155)	820 393	911 548	(45 577)	865 971
Park facilities	738 641	(73 864)	664 777	738 641	(36 932)	701 709
Motor vehicle leases	14 823 618	(4 845 209)	9 978 409	11 351 259	(3 168 244)	8 183 015
Security	89 604	(69 242)	20 362	89 604	(42 923)	46 681
Total	**749 586 780**	**(38 875 769)**	**710 711 011**	**722 019 113**	**(23 608 418)**	**698 410 695**

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2011

	Opening balance	Additions	Depreciation	Total
Land	331 573 305	-	-	331 573 305
Buildings	154 155 263	-	(5 138 509)	149 016 754
Plant and machinery	6 482 439	283 607	(710 928)	6 055 118
Furniture and fixtures	1 512 534	17 835	(504 293)	1 026 076
Motor vehicles	140 010	-	(29 069)	110 941
Office equipment	1 130 484	-	(546 186)	584 298
Emergency equipment	18 929	-	(4 978)	13 951
Roads	102 212 897	21 189 474	(4 306 274)	119 096 097
Landfill sites	7 538 455	-	-	7 538 455
Electricity	83 849 003	2 604 392	(2 241 320)	84 212 075
Bins and containers	865 971	-	(45 578)	820 393
Park facilities	701 709	-	(36 932)	664 777
Motor vehicle leases	8 183 015	3 472 359	(1 676 965)	9 978 409
Security	46 681	-	(26 319)	20 362
	698 410 695	**27 567 667**	**(15 267 351)**	**710 711 011**

Reconciliation of property, plant and equipment - 2010

	Opening balance	Additions	Transfers	Depreciation	Total
Land	1	-	331 573 304	-	331 573 305
Buildings	-	-	159 293 772	(5 138 509)	154 155 263
Plant and machinery	7 029 695	144 400	-	(691 656)	6 482 439
Furniture and fixtures	1 863 906	151 647	-	(503 019)	1 512 534
Motor vehicles	169 078	-	-	(29 068)	140 010
Office equipment	1 344 838	309 759	-	(524 113)	1 130 484
Emergency equipment	23 907	-	-	(4 978)	18 929
Roads	94 267 421	11 952 447	-	(4 006 971)	102 212 897
Landfill sites	-	7 538 455	-	-	7 538 455
Electricity	84 893 542	1 096 170	-	(2 140 709)	83 849 003
Bins and containers	-	911 548	-	(45 577)	865 971
Fare collection equipment	-	-	-	-	-
Park facilities	-	738 641	-	(36 932)	701 709
Motor vehicle leases	7 219 449	2 446 878	-	(1 483 312)	8 183 015
Security	68 424	4 577	-	(26 320)	46 681
	196 880 261	**25 294 522**	**490 867 076**	**(14 631 164)**	**698 410 695**

Property, plant and equipment - Land and buildings take-on balance as at 30 June 2010 (as land and buildings were not valued previously and not split) refer to note 43.

No assets have been pledged as security for any loans.

Assets subject to finance lease (Net carrying amount)

	2011	2010
Motor vehicle leases	9 978 409	8 183 015

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

5. Intangible assets

	2011			2010		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	50 190	(41 825)	8 365	-	-	-

Reconciliation of intangible assets - 2011

	Opening balance	Additions	Amortisation	Total
Computer software, other	-	50 190	(41 825)	8 365

6. Other financial assets

	2011	2010
Held to maturity		
Collateral accounts held with ABSA bank limited in respect of empoyees home loans	224 908	732 923
Current assets		
Held to maturity	224 908	732 923

The municipality has not reclassified any financial assets from cost or amortised cost to fair value, or from fair value to cost or amortised cost during the current or prior year.

7. Financial assets by category

The accounting policies for financial instruments have been applied to the line items below:

2011

	Held at amortised cost	Total
Trade and other receivables	127 026 050	127 026 050
Other receivables from non-exchange transactions	5 223 900	5 223 900
Cash and cash equivalents	124 999 536	124 999 536
VAT Receivable	97 920 198	97 920 198
	355 169 684	**355 169 684**

2010

	Held at amortised cost	Total
Trade and other receivables	116 355 141	116 355 141
Other receivables from non-exchange transactions	5 851 307	5 851 307
Cash and cash equivalents	108 029 501	108 029 501
VAT Receivable	103 919 599	103 919 599
	334 155 548	**334 155 548**

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

8. Employee benefit obligations

Defined benefit plan

To value the PRMA liability in respect of all eligible Lukhanji Municipality employees who belong to one of the following medical schemes:Bonitas, Hosmed, Key Health, LA Health, Samwumed

Data was used in respect of 292 active members and 58 pensioners entitled to a post-retirement medical scheme contribution subsidy. The net decrease of 44 active employees can be attributed to 5 members passing away, 3 members that retired, 2 active members being dismissed, 37 members not being eligible, 2 active employees leaving Lukhanji Municipality since the previous valuation, and 5 new active employees.

The entire zero-coupon South African Bond Yield curve as at 30 June 2011 in the PRMA valuation of Lukhanji Municipality was used. Therefore, a single assumption for the discount rate is not shown. This yield curve is different from the previous valuation, where we used the "Bond Exchange of South Africa" as a reference. The zero-coupon South African Bond Yield is a more reflective measure to use in this valuation.

Since the discount rates are described using a yield curve, a yield curve is also used to describe future medical inflation. Future medical inflation is assumed to be 1% lower than the valuation discount rate at each term to maturity.

The assumtion was made that the CPI to be 3% per annum lower than the discount rate at each term to maturity. It was believed that a long-term gap of approximately 3% between CPI and the valuation discount rate is reasonable for long term valuation purposes.

Post retirement medical aid plan

The calculation is based on 350 members (2010: 395) with an average age of 50.4 (2010: 49.9) and 1.47 average dependants (2010: 1.39) and an average monthly contribution of R1,536 (2010: R1,309)

The amounts recognised in the statement of financial position are as follows:

	2011	2010
Carrying value		
Present value of the defined benefit medical aid obligation	(60 311 461)	(69 223 276)
Service and interest cost	7 459 000	5 867 203
Benefits paid/ membership movements	(3 186 000)	(4 756 993)
Actuarial (gain) / loss recognised in the year	(5 236 000)	7 801 605
Net liability	**(61 274 461)**	**(60 311 461)**
Non-current liabilities	(59 881 693)	(59 051 893)
Current liabilities	(1 392 768)	(1 259 568)
	(61 274 461)	**(60 311 461)**

Net expense recognised in the statement of financial performance

	2011	2010
Current service cost	3 311 000	-
Interest cost	4 148 000	-
Actuarial (gains) losses	(5 236 000)	-
Total included in employee related costs	**2 223 000**	**-**

8. Employee benefit obligations (continued)

Key assumptions used

Assumptions used at the reporting date:

The past service liability has increased by 1.60% since the previous valuation. The table above isolates the effects of the different factors which explain the change in liability from last year to this year. From the previous valuation, the past-service liability was expected to grow with interest, service cost and reduce by benefits paid to pensioners over the past year. The service cost represents the increase in the liability due to the additional year of service accrued by active members. The projected past-service liability as at 30 June 2011 based on the previous valuation is R66.511 million, which represents an increase of 10.28%.

However, as can be seen in the table above, the past service liability produced in this valuation is much lower at R61.275 million, which represents only a 1.60% increase from the previous valuation. The reasons for this difference are outlined below:

1. Economic and actuarial assumptions:

The yield curve applied has been updated to be reflective for the current valuation period as at 30 June 2011. The actual investment return earned over the valuation period was lower than that expected at the previous valuation. This resulted in the interest and service cost being lower than what was projected in the previous valuation, therefore decreasing the past service liability for active members.

Medical inflation is specified in relation to the discount rate, which means that the expected benefits paid to pensioners were also overstated, resulting in lower projection and hence an increase to the past service liability. The majority of the employees included in this valuation are actives, resulting in this effect being less significant.
The changes in assumptions for the long term gap between the discount rate and CPI from 3.5% to 3% and the long term gap between salary inflation and CPI from 2% to 1% have resulted in the long term gap between the discount rate and salary inflation increasing from 1.5% to 2%. Since the fixed subsidy is expected to increase at a rate equivalent to salary inflation, which is now assumed to be at a lower rate than in the previous valuation, this results in a decrease in liability.
The overall effects combined result in a decrease in liability, of approximately 1.02%.

2. Fixed subsidy

Based on the expectation that the fixed subsidy increases in line with salary inflation, the fixed subsidy was anticipated to increase from R2,579.91 to R2,718.30 at a rate of 5.36% (assumed salary inflation in the previous valuation). However, the actual fixed subsidy in 2011 was provided to be R3,092.55, which represents an actual increase of 19.87% from the previous valuation. This has resulted in an increase in liability of 1.27%.

3. Medical contribution increases

The medical aid contributions are expected to increase with medical inflation, which was expected to be 5.89% in the previous valuation. Upon investigation of the actual medical contribution rates in 2011, it was found that the rates for principal members increased by an average of 10.50%, which is significantly more than what was expected for medical inflation. This has resulted in an increase in liability of 2.33%.

4. Membership changes

There has been a net decrease in membership of 45 members at Lukhanji Municipality, details of which can be found in Section 4.1 of this report. This has resulted in a substantial further decrease in the liability of 10.45%.

Overall effect

The overall result of the above effects combined has been to decrease the expected past service liability by 8.68%, resulting in a small overall increase in the past service liability from the previous valuation of 1.60%.

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

9. Other receivables from exchange transactions

Deposits	61 168	61 168
Chris Hani Agency account	106 092 226	77 755 699
Fraudulent transactions	-	6 694 338
Other debtors	339 837	189 666
Reverse R/D cheques	218 835	-
	106 712 066	**84 700 871**

10. Other receivables from non-exchange transactions

Property rates	5 146 672	5 788 222
Consumer deposits	77 228	63 085
	5 223 900	**5 851 307**

Property rates age analysis		
Current (0-30days)	2 299 994	2 683 845
31-60 days	1 487 831	1 413 083
61-90 days	1 358 846	980 473
90 days +	22 076 342	13 007 886
	27 223 013	**18 085 287**

Other receivables from non-exchange transactions impaired

As of 30 June 2011, other receivables from non-exchange transactions of R (22 076 342) (2010: R (11 595 293)) were impaired and provided for.

The amount of the provision was R (22 076 342) as at 30 June 2011 (2010: R (11 595 293)).

11. VAT receivable

VAT	97 920 198	103 919 599

12. Trade receivables from exchange transactions

Gross balances		
Electricity	20 917 145	12 678 159
Refuse	47 261 647	42 112 100
Interest on Consumer debtors	40 680 408	34 787 460
Sundries	64 928 712	68 610 731
	173 787 912	**158 188 450**

Less: Provision for debt impairment		
Electricity	(12 469 266)	(5 154 382)
Refuse	(43 681 170)	(34 793 632)
Interest on Consumer debtors	(38 079 790)	(28 783 483)
Sundries	(59 243 702)	(57 802 683)
	(153 473 928)	**(126 534 180)**

Net balance		
Electricity	8 447 879	7 523 777
Refuse	3 580 477	7 318 468
Interest on Consumer debtors	2 600 618	6 003 977
Sundries	5 685 010	10 808 048
	20 313 984	**31 654 270**

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

12. Trade receivables from exchange transactions (continued)

Electricity		
Current (0 -30 days)	5 005 773	4 002 978
31 - 60 days	2 168 735	1 828 839
61 - 90 days	1 273 370	1 064 028
90 days +	12 469 266	5 782 314
	20 917 144	**12 678 159**

Refuse		
Current (0 -30 days)	1 503 019	1 286 928
31 - 60 days	1 132 771	979 906
61 - 90 days	944 687	812 908
90 days +	43 681 170	39 032 358
	47 261 647	**42 112 100**

Interest on Consumer debtors		
Current (0 -30 days)	873 075	840 158
31 - 60 days	883 551	817 402
61 - 90 days	843 991	839 877
91 - 120 days	38 079 790	32 290 023
	40 680 407	**34 787 460**

Sundries		
Current (0 -30 days)	5 084 597	3 118 141
31 - 60 days	403 835	735 196
61 - 90 days	196 578	525 092
90 days +	59 243 702	64 232 302
	64 928 712	**68 610 731**

Summary of debtors by customer classification

Consumers		
Current (0 -30 days)	12 466 464	9 248 205
31 - 60 days	4 588 892	4 361 343
61 - 90 days	3 258 626	3 241 905
90 days +	153 473 928	141 336 997
	173 787 910	158 188 450
Less: Provision for debt impairment	(153 473 928)	(126 534 180)
	20 313 982	**31 654 270**

Total		
Current (0 -30 days)	12 466 464	9 248 205
31 - 60 days	4 588 892	4 361 343
61 - 90 days	3 258 626	3 241 905
90 days +	153 473 930	141 336 997
	173 787 912	158 188 450
Less: Provision for debt impairment	(153 473 928)	(126 534 180)
	20 313 984	**31 654 270**

Less: Provision for debt impairment		
90 days +	(153 473 928)	(126 534 180)

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

12. Trade receivables from exchange transactions (continued)

Reconciliation of debt impairment provision

Balance at beginning of the year	(126 534 180)	-
Contributions to provision	(26 939 748)	-
Prior year balance	-	(126 534 180)
	(153 473 928)	**(126 534 180)**

Consumer debtors impaired

As of 30 June 2011, consumer debtors of R (153 473 928) (2010: R (126 534 180)) were impaired and provided for.

The amount of the provision was R (153 473 928) as of 30 June 2011 (2010: R (126 534 180)).

Reconciliation of provision for impairment of consumer debtors

Opening balance	(126 534 180)	(126 534 180)
Provision for impairment	(21 569 720)	-
	(148 103 900)	**(126 534 180)**

13. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	26 992	26 992
Bank balances	27 250 235	1 081 152
Short-term deposits	97 722 309	106 921 357
	124 999 536	**108 029 501**

Credit quality of cash at bank and short term deposits, excluding cash on hand

The credit quality of cash at bank and short term deposits, excluding cash on hand that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or historical information about counterparty default rates:

Cash and cash equivalents pledged as collateral

No cash and cash equivalents were pledged as collateral.

Guarantees in respect of housing bonds to employees - Collateral (Disclosed under investments)	79 639	49 280

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

13. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2011	30 June 2010	30 June 2009	30 June 2011	30 June 2010	30 June 2009
ABSA BANK LIMITED - Current Account - 4052819154	42 523 873	11 804 175	15 188 096	17 447 956	735 199	-
ABSA BANK LIMITED - Current Account - 2160143854	9 802 279	571 646	4 033 282	9 802 279	-	-
STANDARD BANK- Current Account - 082646066	-	16 588	17 611	-	-	-
STANDARD BANK - Current Account - 3885053620001	-	13 583	13 546	-	-	-
ABSA BANK - Savings Account - 21604362	127 523	121 252	112 671	-	121 252	112 671
ABSA BANK - Fixed Deposit - 2058745521	8 266	-	-	8 266	-	-
ABSA BANK - Fixed Deposit - 2059236583	9 845	-	-	9 845	-	-
ABSA BANK - Fixed Deposit - 2059236672	22 000	-	-	22 000	-	-
ABSA BANK - Fixed Deposit - 2054238637	16 000	-	-	16 000	-	-
ABSA BANK - Fixed Deposit - 2054410158	6 884	-	-	6 884	-	-
ABSA BANK - Fixed Deposit - 2054871867	7 382	-	-	7 382	-	-
ABSA BANK - Fixed Deposit - 2057750882	18 500	-	-	18 500	-	-
ABSA BANK - Fixed Deposit - 2058745343	14 177	-	-	14 177	-	-
ABSA BANK - Fixed Deposit - 2058745458	10 935	-	-	10 935	-	-
ABSA BANK - Fixed Deposit - 2054880953	7 382	-	-	7 382	-	-
ABSA BANK - Fixed Deposit - 2055339377	10 100	-	-	10 100	-	-
ABSA BANK - Fixed deposit - 2057595270	14 500	-	-	14 500	-	-
ABSA BANK - Fixed Deposit - 2064325597	27 938	-	-	27 938	-	-
ABSA BANK - Money Market - 9090448293	97 059 887	-	-	97 580 261	106 785 896	-
ABSA BANK - Fixed Deposit - 2058681438	15 000	-	-	15 000	-	-
Total	**149 702 471**	**12 527 244**	**19 365 206**	**125 019 405**	**107 642 347**	**112 671**

14. Other financial liabilities

	2011	2010
Held at amortised cost		
Development Bank of South Africa Loan	1 370 594	2 500 033
The original loan repayment period was 8 years.		
The fixed interest rate		
ABSA bank loan	762 990	-
Draw down loan with R5 million availible to the borrower, at a fixed interest rate payable on a monthly basis.		
Other financial liabilities	1 303 479	1 005 833
	3 437 063	**3 505 866**

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

14. Other financial liabilities (continued)

Non-current liabilities		
At amortised cost	2 133 584	2 500 033
Current liabilities		
At amortised cost	1 303 479	1 005 833
	3 437 063	**3 505 866**

15. Finance lease obligation

Minimum lease payments due		
- within one year	4 260 028	4 090 535
- in second to fifth year inclusive	4 955 689	5 624 447
	9 215 717	9 714 982
less: future finance charges	(1 455 820)	(1 109 896)
Present value of minimum lease payments	**7 759 897**	**8 605 086**
Present value of minimum lease payments due		
- within one year	3 490 312	3 847 116
- in second to fifth year inclusive	4 269 585	4 757 970
	7 759 897	**8 605 086**
Non-current liabilities	4 772 145	4 995 714
Current liabilities	3 490 312	3 270 023
	8 262 457	**8 265 737**

It is municipality policy to lease certain motor vehicles and equipment under finance leases.

The average lease term was 5 years and the average effective borrowing rate was 11% (2010: 11%).

Interest rates are linked to prime at the contract date. All leases have fixed repayments and no arrangements have been entered into for contingent rent.

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer note 4.

16. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Municipal infrastructure grant	5 200 543	19 723 089
Financial management grant	727 460	534 927
Municipal system improvement grant	968 033	834 070
Other grants	8 574 506	15 538 860
	15 470 542	**36 630 946**
Movement during the year		
Balance at the beginning of the year	36 630 948	23 979 180
Additions during the year	10 524 132	58 821 958
Income recognition during the year	(31 684 538)	(46 170 192)
	15 470 542	**36 630 946**

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

16. Unspent conditional grants and receipts (continued)

See note for reconciliation of grants from National/Provincial Government.

These amounts are invested in a ring-fenced short term cash deposit until utilised.

Summary of balances and movements on grants	**Unspent balance 2010**	**Receipts**	**Interest**	**Transfer operating expenditure**	**Transfer capital expenditure**	**Other transfers**	**Unspent balance 2011**
BCIG projects	119 821	-	-	-	-	-	119 821
Bulk Services Levy	489 959	-	43 408	(1 052)	-	392 949	925 264
CMIP Projects	116 338	-	2 942	-	-	-	119 280
Computerized Library System	178 426	-	10 899	-	-	-	189 325
DBSA : Hand Held Terminals	15 000	-	-	-	-	-	15 000
Department of National Health (Attic)	1 714 474	-	-	(1 549 828)	-	-	164 646
Financial Management Grant	534 927	1 250 000	91 126	(1 133 731)	(14 862)	-	727 460
Fire Services	321 757	-	19 529	(55 814)	-	-	285 472
IEC	29 602	-	2 213	(338 280)	(89 990)	700 000	303 545
Interest on Projects Infrastructure	92 728	-	2 355	(133 258)	-	40 953	2 778
LED Project - Resource group	1 429 805	-	86 934	(180 603)	14 274	-	1 350 410
McBride	(206 168)	-	(12 609)	7 301	-	-	(211 476)
Municipal infrastructure grant	19 723 089	5 980 000	828 816	(141 887)	(21 189 474)	-	5 200 544
MSP Funds	196 733	-	12 008	-	-	-	208 741
Municipal Systems Improvement Program	834 070	750 000	84 992	(49 619)	-	(651 411)	968 032
Ner: Ezibeleni Infra Upgrade Phase 2	(4 026)	-	(420)	(78 075)	-	-	(82 521)
Nomzamo	44 073	-	2 714	(9 520)	-	-	37 267
Shiloh Greenfields	447 500	-	16 881	(254 950)	-	-	209 431
Poplar Grove	879 542	-	52 650	(15 337)	-	-	916 855
Preparation of Structure Plan	85 667	-	5 233	-	-	-	90 900
Queenstown Rhino Funds	187 967	-	11 469	(5 541)	-	-	193 895
AIDS Grant	9 517	-	577	(1 856)	-	-	8 238
Rural Water Scheme	12 390	-	-	-	-	-	12 390
Sabata	1 347 386	-	80 241	(989 168)	-	64 691	503 150
Service: Informal Settlements	146 591	-	4 942	(69 045)	-	-	82 488
Small micro stratergy and hawker	173 929	-	10 346	(118 099)	-	-	66 176
Valuation Fund	25 894	-	1 582	-	-	-	27 476
Various Projects - CHDM water	2 065 016	-	64 386	(1 719 339)	-	-	410 063
Who-Can-Tell	448 006	-	26 721	(215 805)	-	-	258 922
Electricity upgrade grants	3 499 827	-	213 356	(178 114)	(2 468 765)	(11 745)	1 054 559
Sundry Grants	1 162 565	-	53 785	(593 611)	-	262 117	884 856
Whittlesea Grants	508 543	-	29 501	(110 490)	-	-	427 554
Total	**36 630 948**	**7 980 000**	**1 746 577**	**(7 935 721)**	**(23 748 817)**	**797 554**	**15 470 541**

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

17. Provisions

Reconciliation of provisions - 2011

	Opening Balance	Additions	Total
Landfill provision	14 831 438	2 245 378	17 076 816

Reconciliation of provisions - 2010

	Opening Balance	Additions	Total
Landfill provision	-	14 831 438	14 831 438

With regards to the Provision for Landfill sites: It is stated in the Department of Water Affairs and Forestry "Minimum Requirements for Waste Disposal by Landfill", Second Edition 1998, Chapter 2.3.4, that "All landfills except those closed prior to August 1990 when the permitting system came into effect, must be permitted before they can be considered closed. Closure will involve, inter alia, the application of final cover, topsoiling, vegetating, drainage maintenance and leachate management." Rehabilitation costs in respect of geohydrological monitoring is anticipated to be a recurring cost for the next 30 years. The future value of the Rehabilitation of landfill sites obligation was calculated by inflating the non current rehabilitation cost to an estimated future cost which was then discounted to present value.
Assumptions used:
- Interest rate used is linked to prime 9% (2010: 10%).

18. Trade and other payables

	2011	2010
Trade payables	2 352 767	9 096 939
Payments received in advance	6 382 149	5 145 709
Other creditors	929 561	1 229 411
Accrued leave pay	10 176 680	12 666 293
Cape Joint pension fund accrual	1 735 003	-
	21 576 160	**28 138 352**

Fair value of trade and other payables

	2011	2010
Trade payables	2 352 767	9 096 939
Other payables	19 223 393	19 074 413
	21 576 160	**28 171 352**

19. VAT payable

	2011	2010
VAT payable	96 470 528	100 166 178

20. Consumer deposits

	2011	2010
Electricity	7 937 497	7 602 712

21. Financial liabilities by category

The accounting policies for financial instruments have been applied to the line items below:

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

21. Financial liabilities by category (continued)

2011

	Financial liabilities at amortised cost	Total
Other financial liabilities	3 437 063	3 437 063
Trade and other payables	21 576 160	21 576 160
Finance leases	8 262 457	8 262 457
	33 275 680	**33 275 680**

2010

	Financial liabilities at amortised cost	Total
Other financial liabilities	3 505 866	3 505 866
Trade and other payables	28 138 352	28 138 352
Finance leases	8 265 737	8 265 737
	39 909 955	**39 909 955**

22. Revenue

	2011	2010
Property rates	39 333 529	32 737 811
Property rates – Penalties imposed and collection charges	473 753	1 079 950
Service charges	130 496 953	105 972 442
Rental of facilities & equipment	1 468 932	1 463 688
Interest received – trading	8 448 319	15 716 759
Fines	729 472	602 269
Licences and permits	8 644 085	7 777 380
Goverment grants & subsidies	125 331 362	121 847 213
	314 926 405	**287 197 512**

The amount included in revenue arising from exchanges of goods or services are as follows:

	2011	2010
Service charges	130 496 953	105 972 442
Rental of facilities & equipment	1 468 932	1 463 688
Interest received – trading	8 448 319	15 716 759
Licences and permits	8 644 085	7 777 380
	149 058 289	**130 930 269**

The amount included in revenue arising from non-exchange transactions is as follows:

	2011	2010
Taxation revenue		
Property rates	39 333 529	32 737 811
Property rates – Penalties imposed and collection charges	473 753	1 079 950
Fines	729 472	602 269
Transfer revenue		
Goverment grants & subsidies	125 331 362	121 847 213
	165 868 116	**156 267 243**

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

23. Property rates

Rates received

Assessment rates	28 777 882	23 333 136
Infrastructure improvement rates	10 555 647	9 404 675
	39 333 529	32 737 811
Property rates - penalties imposed and collection charges	473 753	1 079 950
	39 807 282	**33 817 761**

Valuations

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2010. Interim valuations are performed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

Rates are levied on an annual basis with the final date for payment being 30 September 2011 (30 September 2010). Interest at prime plus 1% per annum (2010: prime plus 1%) is levied on rates outstanding two months after due date.

A general rate of 0.00145 for agricultural properties, 0.007223 for commercial properties, 0.00578 for residential properties, 0.00145 for govenrment infrastructure properties and 0.02538 for vacant land is applied to property valuations to determine assessment rates (2010: 0.0235 - agricultural properties, 0.006688 - bussiness properties, 0.00535 - residential properties, 0.001338 - government properties and infrastructure). Rebates of the first R15 000 on the value of residential properties.

24. Service charges

Sale of electricity	112 211 547	90 071 462
Refuse removal	18 194 511	15 900 980
Other service charges	90 895	-
	130 496 953	**105 972 442**

25. Government grants and subsidies

Equitable share and subsidies received	93 646 824	97 819 578
Conditional grants	31 684 538	24 027 635
	125 331 362	**121 847 213**

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

All registered indigents receive a monthly subsidy of R 50 (2010: R 50), which is funded from the grant.

26. Other revenue

Other income	40 154 862	35 359 067

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

27. Other income

Access to info fee	(379)	-
Administration charges	(3 750)	(17 856)
Advertising costs	(4 694)	(17 480)
Building plan fees	(473 896)	(263 262)
Burial fees	(711 254)	(819 725)
Certificates: valuation	(7 174)	(5 323)
Chris Hani Control	(30 121 113)	(22 276 130)
Commission on r/d cheques	(1 632)	(5 790)
Commission on stop orders	(78 634)	(64 670)
Community levy	(181 800)	(182 816)
Connection fee: electricity	(358 795)	-
Connection fee: private works	(84 588)	(243 017)
Digging of graves	(227 403)	(21 465)
Encroachment fees	(3 713)	(3 713)
Fire brigade fees	(880)	(8 689)
Gate monies	(75 035)	(90 623)
Grazing fees	(5 500)	(5 803)
Hunting packages	(86 771)	(150 553)
Internet	(2 987)	(4 797)
Lost books & records	(845)	(410)
Parking meter fees	(68 471)	(76 309)
Patient retain cards	(55 350)	(51 939)
Photocopies	(74 495)	(67 630)
Plan fees	(8 103)	(6 841)
Plot fees	(113 536)	(40 918)
Pound fees	(2 283 055)	(2 643 438)
Project fees	(1 292 524)	(1 945 694)
Reconnection fee: electricity	(255 708)	(229 778)
Refuse removal charges	-	(41 490)
Rentals: carports	(6 456)	(7 305)
Rentals: street signs	(41 493)	(133 209)
Rezoning fees	(2 214)	(650)
Roadworthy certificates	(557 827)	(494 358)
Sale of newspapers & magazines	(96)	(16)
Sale of plants	(7 874)	(6 656)
Sale of refuse bags	(52 666)	(67 060)
Search fees	(3 270)	(3 744)
Special permits	(204 600)	(120 746)
Sundry revenue	(2 277 116)	(4 865 891)
Surplus cash	(1 869)	(5 690)
Swimming bath fees	(8 259)	(6 746)
Tampering-electricity	(347 290)	(311 933)
Testing-electricity meters	(7 385)	(3 185)
Tip fees	(54 002)	(45 449)
User fees	(360)	(270)
	(40 154 862)	**(35 359 067)**

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

28. General expenses

Advertising	229 372	166 110
Auditors remuneration	1 857 005	1 779 207
Bank charges	812 286	578 330
Agency fees	917 118	975 842
Consulting and professional fees	754 171	480 282
Entertainment	209 808	148 526
SPCA contributions	150 000	48 000
Insurance	791 768	1 380 159
Conferences and seminars	719 087	841 604
Lease rentals on operating lease	1 373 349	1 674 841
Horticulture	6 330	7 435
Medical expenses	21 604	26 613
Motor vehicle expenses	643 993	473 530
Fuel and oil	4 342 534	3 830 934
Postage and courier	834 713	1 025 428
Printing and stationery	772 444	773 582
Promotions	12 350	11 795
Secretarial fees	507 884	566 180
Software expenses	6 835	17 386
Subscriptions and membership fees	5 039	60 811
Telephone and fax	1 940 868	1 726 255
Training	606 989	337 260
Travel - local	571 478	349 930
Electricity	898 996	673 977
Sewerage and waste disposal	81 672	104 232
Water	328 138	313 953
Refuse	2 270	42 750
Rates charges	20 034	255 787
Town planning	3 104	32 410
Mayors cup	(2 780)	192 903
Valuation expenses	-	456 140
Chemicals	121 302	37 644
Post retirement medical aid - service charge	3 311 000	5 867 203
Other expenses	3 891 822	3 371 457
	26 742 583	**28 628 496**

Other expenses		
Aids council	-	12 650
Ammunition	-	342
Clean-up projects	94 959	64 000
Contract disbursements	10 818	-
Digging of graves	352 930	504 111
Dog licences	3 214	-
Drivers: licences	387 115	367 558
Feeding	485 640	412 948
Firebreaks	8 250	-
Herding fees	185 596	1 260
Laundry	1 054	95 661
Leave gratuity fund	-	288
Levies: institutions	1 538 163	26 625
Medical examination	605	1 275 607
Misc fees: roadworth	26 987	29 164
Musical rights	2 193	12 469
Pauper burials	16 292	20 307
Pound fees	43 673	25 168
Removal expenses reserves	-	11 300
Road signs	47 217	49 625
Safety: nosa	-	1 180

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
28. General expenses (continued)		
Street expenditure	354 853	303 023
Tampering-electricity	-	45 000
Tools & equipment	29 028	58 896
Transfer fees	41 312	36 276
Woman / youth	261 123	17 999
World aids day	800	-
	3 891 822	**3 371 457**

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

29. Employee related costs

Basic	51 829 648	40 396 066
Medical aid - company contributions	5 452 960	2 634 869
UIF	515 126	449 752
WCA	-	422 162
Leave pay provision charge	-	2 064 929
Group life insurance	477 333	375 362
Post-employment benefits - Pension - Defined contribution plan	10 223 976	7 495 445
Overtime payments	3 728 087	3 603 048
Long-service awards	142 933	263 797
13th Cheques	4 152 413	3 799 631
Car allowance	2 790 968	2 940 355
Housing benefits and allowances	236 242	279 840
Service bonus	301 467	59 052
Other allowances	27 037	24 064
Telephone allowances	17 333	15 661
Uniforms and protective clothing	406 130	384 737
Night shit services	660 551	622 822
Contract workers	7 657 674	8 242 956
	88 619 878	**74 074 548**

Remuneration of municipal manager

Annual Remuneration	608 131	493 687
Other (Pension, Transport, Medical Aid, UIF, Housing Subsidy ect.)	88 161	257 360
	696 292	**751 047**

Remuneration of chief finance officer

Annual Remuneration	363 064	517 520
Other (Pension, Transport, Medical Aid, UIF, Housing Subsidy ect.)	151 468	138 845
	514 532	**656 365**

Remuneration of Technical services Manager

Annual Remuneration	663 314	433 802
Other (Pension, Transport, Medical Aid, UIF, Housing Subsidy ect.)	60 000	218 097
	723 314	**651 899**

Remuneration of Corporate services Manager

Annual Remuneration	518 153	451 732
Other (Pension, Transport, Medical Aid, UIF, Housing Subsidy ect.)	162 632	200 168
Long service bonus	26 764	-
	707 549	**651 900**

Remuneration of Community services Manager

Annual Remuneration	525 183	464 096
Other (Pension, Transport, Medical Aid, UIF, Housing Subsidy ect.)	84 503	187 804
	609 686	**651 900**

Remuneration of Estate services Manager

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

29. Employee related costs (continued)

Annual Remuneration	501 142	441 197
Other (Pension, Transport, Medical Aid, UIF, Housing Subsidy ect.)	95 059	210 703
	596 201	**651 900**

Remuneration of Strategic Executive Officer

Annual Remuneration	76 497	-
Other (Pension, Transport, Medical Aid, UIF, Housing Subsidy ect.)	15 231	-
	91 728	**-**

30. Remuneration of councillors

Executive Mayor	13 874	11 534
Speaker	555	2 744
Councillors	14 264 691	11 359 826
	14 279 120	**11 374 104**

31. Investment revenue

Interest revenue		
Unlisted financial assets	4 070 515	4 793 415
Bank	1 131 950	1 927 124
	5 202 465	**6 720 539**

32. Depreciation and amortisation

Property, plant and equipment	15 309 174	14 631 640

33. Finance costs

Finance leases	949 656	1 609 217
Bank	236	532
Interest on landfill site provision for rehabilitation	2 535 871	2 175 961
Other interest paid	4 148 000	-
	7 633 763	**3 785 710**

34. Auditors' remuneration

Fees	1 857 005	1 779 207

35. Rental of facilities and equipment

Premises		
Premises	929 201	799 753
Grounds	41 269	56 551
	970 470	**856 304**
Facilities and equipment		
Rental of facilities	490 262	599 546
Rental of equipment	8 200	7 838
	498 462	**607 384**
	1 468 932	**1 463 688**

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

36. Contracted services

Security and maintenace contractors	1 943 285	4 853 605

37. Grants and subsidies paid

Other subsidies		
Operating expenditure on conditional grants	6 267 500	24 027 636

38. Bulk purchases

Electricity	95 041 763	72 255 114

39. Cash generated from operations

Surplus	60 881 385	48 594 575
Adjustments for:		
Depreciation and amortisation	15 309 174	14 631 640
(Loss) gain on sale of assets and liabilities	(14 591 927)	4 547 486
Finance costs - Finance leases	949 656	1 609 217
Impairment deficit	2 471 135	-
Debt impairment	57 530 576	42 759 776
Movements in retirement benefit assets and liabilities	963 000	10 328 272
Movements in provisions	2 245 378	14 831 438
Other non-cash items	-	(9 633)
Prior period error	(119 416)	(5 117 021)
Changes in working capital:		
Trade and other receivables from exchange transactions	(24 482 330)	(44 606 318)
Other receivables from non-exchange transactions	627 407	2 413 164
Consumer debtors	(46 190 290)	(39 106 423)
Trade and other payables from exchange transactions	(6 562 192)	8 273 521
VAT	2 303 751	(1 593 935)
Unspent conditional grants and receipts	(21 160 404)	12 651 767
Consumer deposits	334 785	219 306
	30 509 688	**70 426 832**

40. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
• Infrastructure	4 634 523	9 535 182
• Community	6 014 468	672 848
• Other	-	27 189 037
	10 648 991	**37 397 067**

This committed expenditure relates to property and will be financed by available bank facilities, grants, existing cash resources.

Operating leases - as lessor (income)

Leases entered into are on a month to month basis, and no contract has been signed in respect of these leases. No straight lining of these leases has been done due to the afore-mentioned statement.

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

41. Contingencies

Contingent liabilities at year end is as follows:

1.Matter: Lukhanji Municipality vs. Achuma Construction: This is a claim against the Municipality for construction work, which should be successfully defended. The Municipality has paid this amount claimed to a Cessionary in full and final settlement of any claim which the entity might have against the Municipality. Legal Counsel's estimate of the financial exposure (including costs and disbursements) : R120 000.00 (Status of case: Current)

2.Matter: Lukhanji Municipality vs. Director General, Dept of Labour : This is a suspended fine in respect of an Employment Equity related matter, which we have been advice has been taken care of. Legal Counsel's estimate of the financial exposure (including costs and disbursements) : R500 000.00 (Status of case: Unknown)

3.Matter: Lukhanji Municipality vs. Guidos : No Summons has been issued in this matter and only a Letter of Demand has been submitted to the Municipality. This is a damages claim and the prospects of successfully defending the matter is good. Legal Counsel's estimate of the financial exposure (including costs and disbursements) : R1 500 000.00 (Status of case: Letter of Demand received)

4.Matter: Lukhanji Municipality vs. Hlulani, S P : This matter is part-heard and should be finalised in the next year. Client's prospects of successfully defending this action are good. Legal Counsel's estimate of the financial exposure (including costs and disbursements) : ±R55 000.00 (Status of case: Pending)

5.Matter: Lukhanji Municipality vs. Magqabi, A V : This is an Application for the transfer of immovable property, which is being opposed by client. Legal Counsel's estimate of the financial exposure (including costs and disbursements) : R250 000.00 (Status of case: Pending)

6.Matter: Lukhanji Municipality vs. Mekile & 7 Others : This is a Summons which was issued against the Municipality for a damages claim relating to the impounding of stock. Legal Counsel's estimate of the financial exposure (including costs and disbursements) : R45 000.00 (Status of case: Pending)

7.Matter: Lukhanji Municipality vs. Meliziswe International Property : The matter was defended by the Municipality and the Plaintiff has not proceeded with the matter. Legal Counsel's estimate of the financial exposure (including costs and disbursements) : R1 700 000.00 (Status of case: Pending)

8.Matter: Lukhanji Municipality vs. Mdodana, B M : The Legal Resources Centre has brought an Application to the High Court for an Order declaring the Pound Legislation unconstitutional. The Municipality was cited as a Respondent in this matter, but has decided not to oppose the matter and we currently await an outcome from the Court. Legal Counsel's estimate of the financial exposure (including costs and disbursements) : R50 000.00 (Status of case: Pending)

9.Matter: Lukhanji Municipality vs. Motile A : This is an action which the Municipality is defending and which the Plaintiff has failed to set down for trial. The Plaintiff appears to have lost interest in the claim and the matter is currently being monitored only. Legal Counsel's estimate of the financial exposure (including costs and disbursements) : R150 000.00 (Status of case: Pending)

10.Matter: Lukhanji Municipality vs. Mpande, Z : In this particular matter the Municipality is litigating against the entity in terms of certain building regulation contraventions. Legal Counsel's estimate of the financial exposure (including costs and disbursements) : R15 000.00 (Status of case: Pending)

11.Matter: Lukhanji Municipality vs. Mpemba, S D : This is an application to re-instate the Applicant as a Councillor and to back pay allowances due to the Councillor after his removal from office. The Applicant has been unable to progress the matter and the Municipality has a Cost Order which it is trying to recover from the Applicant. Legal Counsel's estimate of the financial exposure (including costs and disbursements) : R50 000.00 (Status of case: Pending)

12.Matter: Lukhanji Municipality vs. Nofemele, B S & Others : An Application by Nofemele & others regarding certain immovable property, which matter has become settled. Legal Counsel's estimate of the financial exposure (including costs and disbursements) : R25 000.00 (Status of case: Pending)

13.Matter: Lukhanji Municipality vs. Nondumo, S : This is a claim for salary due to the entity and which we have recently been instructed with. We have no further information and cannot pronounce on the prospects of success at this stage. Legal Counsel's estimate of the financial exposure (including costs and disbursements) : R50 000.00 (Status of case: Letter of Demand received)

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

41. Contingencies (continued)

14.Matter: Lukhanji Municipality vs. SALA Pension Fund : This matter was heard in the High Court in Grahamstown during September 2011. We are currently awaiting Judgment. The Application goes to the increase of Employer contributions to the SALA Pension Fund and the dispute related to the backdating of the implementation dates. Counsel was satisfied that we had reasonable prospects of success relating to a large portion of the claim. Legal Counsel's estimate of the financial exposure (including costs and disbursements) : R1 600 000.00 (Status of case: Pending)

15.Matter: Lukhanji Municipality vs. SAMWU obo Cata and 45 Others : In this matter Cata and 45 others are claiming salaries backdated to a decision by the Whittlesea Transitional Local Council to upgrade the Municipality and accordingly upgrade their own salaries. This matter has been opposed in the Labour Court, Port Elizabeth and we are reasonably satisfied that the Municipality have good prospects of succeeding in opposing this Application. Legal Counsel's estimate of the financial exposure (including costs and disbursements) : R75 000.00 (Status of case: Pending)

16.Matter: Lukhanji Municipality vs. SAMWU obo Mayekiso, S : In this matter Mayekiso was dismissed and on Arbitration was re-instated. We were instructed to have the decision of the Arbitrator taken on review and this matter is awaiting the set down of a trial date. Counsel is reasonably satisfied of our prospect of success and we are currently instructed regarding possible settlement negotiations. Legal Counsel's estimate of the financial exposure (including costs and disbursements) : R75 000.00 (Status of case: Pending)

17.Matter: Lukhanji Municipality vs. SAMWU obo Mjobo, V W : In this matter in the entity Mjobo was dismissed and on Arbitration was re-instated. We were instructed to launch an Application to have the decision of the Arbitrator reviewed and set aside and this matter is currently awaiting a date for hearing in the Labour Court, Port Elizabeth. We are lead by Counsel and are reasonably satisfied of our prospects of success. Legal Counsel's estimate of the financial exposure (including costs and disbursements) : R75 000.00 (Status of case: Pending)

18.Matter: Lukhanji Municipality vs. Siyahlutha Developers : This is a High Court Summons issued against the Municipality and the Department of Public Works for payment of monies due to an alleged bridge of contract. This matter is pending and a trial date is awaited. We are satisfied that there are reasonable prospects of successfully defending this action. Legal Counsel's estimate of the financial exposure (including costs and disbursements) : R2 500 000.00 (Status of case: Pending)

19.Matter: Lukhanji Municipality vs. Skweyiya, B: In this matter the Plaintiff has sued a Councillor of the Municipality for damages. The matter is being defended and we are currently awaiting a trial date. Legal Counsel's estimate of the financial exposure (including costs and disbursements) : R150 000.00 (Status of case: Pending)

20.Matter: Lukhanji Municipality vs. Tyalithi Family Trust : This is an Application in terms of the Building Regulations and will be heard in the High Court in due course. We are reasonably satisfied of our prospects of success. Legal Counsel's estimate of the financial exposure (including costs and disbursements) : ±R50 000.00 (Status of case: Pending)

21.Matter: Lukhanji Municipality vs. M. Peltenberg : This is a claim against the Municipality for Collision. : ±R707 373.24 (Status of case: Pending)

22.Matter: Lukhanji Municipality vs. Mpemba & another : This is a claim against the Municipality for dismissal of a Councillor. : Amount: Unknown (Status of case: Pending)

23.Matter: Lukhanji Municipality vs. Richard & Linganiso : Summon with case number 2242/10 .claim against the municipality for damages, Impounding of live stock that cause death. : ±R62 000.00 (Status of case: Pending)

24.Matter: Lukhanji Municipality vs. Bulelwa Gidzana : Summon with case number 1078/2011.Claim for damage of child who was injured in Ezibeleni playing with Concrete pipes. : ±R50 000.00 (Status of case: Pending)

25.Matter: Lukhanji Municipality vs. J A Smuts : Matter still waiting for issue of Summon. : ±R44 750.00 (Status of case: Pending)

26.Matter: Sum of claims from Smith tabata: Matter still not yet finalised. : ±R220 000.00 (Status of case: Pending)

27.Guarantees: Collateral invested by the Municipality of behalf of employees. (Disclosed under investments) Value: R79, 639.15

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

42. Related parties

No related party information was presented in time for presentation of these financials, this information will be made availible subsequently.

43. Prior period errors

The correction of the error(s) results in adjustments as follows:

	2011	2010
Statement of financial position		
Property, plant and equipment - Land and buildings take-on balance as at 30 June 2010 (as land and buildings were not valued previously and not split) refer to note 3.	-	490 867 076
Consumer Debtors - Properties valued incorrectly and SV form was done after year, the final valuation roll incl SV4 and rates were corrected. This was done for 2010 year.	-	(701 773)
Landfill sites	-	7 538 455
Provision for landfill sites	-	(14 831 438)
Adjustment on PRMA not recorded in 2010	-	(1 415 457)
Reversal of provision for unused electricity	-	1 599 586
Correction of assets cost prices and accumulated depreciation, to agree with the fixed asset register	-	(1 358 696)
Investment property take-on, Vacant land identified along with buildings that are rented out	-	91 283 592
Correction of prior year depreciation	-	(5 359 875)
Statement of Financial Performance		
Correction of prior year depreciation	-	(5 359 875)
Rates adjustment	-	701 773
Other	-	1 923 092
Cash flow statement		
Cash flow from operating activities		
Interest adjustment on landfill site provision	-	5 117 021
Adjustment to appropriation account (Information was not availible in respect of this balance at the date of submission)	119 416	-
	119 416	**5 117 021**

44. Risk management

Capital risk management

The municipality's objectives when managing capital are to safeguard the municipality's ability to continue as a going concern in order to provide returns for member and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the municipality consists of debt, which includes the borrowings (excluding derivative financial liabilities) disclosed in notes 15, 14, cash and cash equivalents disclosed in note 13, and equity as disclosed in the statement of financial position.

There have been no changes to what the municipality manages as capital, the strategy for capital maintenance or externally imposed capital requirements from the previous year.

44. Risk management (continued)

Financial risk management

The municipality's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The municipality's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality's financial performance. The municipality uses derivative financial instruments to hedge certain risk exposures. Risk management is carried out by a central treasury department (entity treasury) under policies approved by the accounting officer. Municipality treasury identifies, evaluates and hedges financial risks in close co-operation with the municipality's operating units. The accounting officer provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

The municipality's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the municipality to cash flow interest rate risk. Borrowings issued at fixed rates expose the municipality to fair value interest rate risk. During 2011 and 2010, the municipality's borrowings at variable rate were denominated in the Rand .

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used.

45. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

46. Events after the reporting date

Disclose for each material category of non-adjusting events after the reporting date:

- On 19 August 2011, Siyasanga Nondumo was dismissed for fraudulent activities of which there was no financial loss found to be suffered by the municipality.
- No estimation can be made on the financial effect of this information given the nature.

47. Fruitless and wasteful expenditure

	2011	2010
Airticket - Director Technical services	4 123	-
SARS - Penalties and interest due to late submision of VAT201 returns	4 817	-
	8 940	**-**

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

48. Irregular expenditure

	2011	2010
Add: Irregular Expenditure - current year	37 659 797	-
Less: Amounts condoned	(1 121 571)	-
	36 538 226	**-**

Expenditure to the value of R1 121 571.00 was incurred during the current financial year, for which the required documentation was not available in order to comply with minimum required procurement procedures. As a result, the expenditure is considered irregular. All of these amounts have been condoned by council.

Non-compliance with the Supply chain management policy. The following services were not procured through competitive bidding process as the payment made as a payment made to suppliers made exceed R200,000.00. Total value: R12 095 151.

The SCM Policy was not properly followed during the year under review with the result that all approved tenders were irregular and therefore amounts paid on these tenders' amounts to irregular expenditure. Total value: R 24 443 075

Details of irregular expenditure – current year

	Disciplinary steps taken/criminal proceedings	
Non-compliance with the Supply chain management policy. The following services were not procured through competitive bidding process as the payment made as a payment made to suppliers made exceed R200,000.00	No steps were taken	12 095 151
The SCM Policy was not properly followed during the year under review with the result that all approved tenders were irregular and therefore amounts paid on these tenders' amounts to irregular expenditure.	No steps were taken	24 443 075
Expenditure was incurred during the current financial year, for which the required documentation was not available in order to comply with minimum required procurement procedures. As a result, the expenditure is considered irregular.	All of these amounts have been condoned by council	1 121 571
		37 659 797

49. Additional disclosure in terms of Municipal Finance Management Act

Audit fees

	2011	2010
Current year fee	1 857 005	2 332 804
Amount paid - current year	(1 857 005)	(2 332 804)
	-	-

VAT

	2011	2010
VAT receivable	1 449 670	3 753 421

49. Additional disclosure in terms of Municipal Finance Management Act (continued)

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2011:

30 June 2011	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Councillor BLEKIWE M	841	21 811	22 652
Councillor BOKUVA MH	293	2 558	2 851
Councillor DE WET JC	19 828	-	19 828
Councillor DYAN ML	232	1 091	1 323
Councillor DYANTYI SR	151	-	151
Councillor DYWILI ZA/H	308	-	308
Councillor GAJU SL	321	-	321
Councillor GWANTSHU MZ	501	-	501
Councillor HEYMAN RL	220	-	220
Councillor HOKOLO MS	243	1 840	2 083
Councillor JIKELE LE	1 003	20 203	21 206
Councillor JOCKI TM/S	8 292	-	8 292
Councillor MANDILE JT/NE	2 123	-	2 123
Councillor MANTASHE TP	341	315	656
Councillor MAQUNGO NL	170	522	692
Councillor MNYAKA M	994	23 135	24 129
Councillor NDALISO MR	595	1 277	1 872
Councillor NONTSELE MH	155	-	155
Councillor SHAW JM	470	-	470
Councillor SNYDERS A	293	-	293
Councillor TSOTETSI EN	139	-	139
	37 513	**72 752**	**110 265**

30 June 2010	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Councillor ZA Beje	40	7 343	7 383
Councillor TM/S Jocki	429	-	429
Councillor NB Keva	1 582	-	1 582
Councillor MH Bokuva	266	1 532	1 798
Councillor JJ Makasi	102	71	173
Councillor M Blekiwe	836	19 763	20 599
	3 255	**28 709**	**31 964**

During the year the following Councillors' had arrear accounts outstanding for more than 90 days.

30 June 2011	Highest outstanding amount	Aging (in days)
Councillor BLEKIWE M	22 652	-
Councillor BOKUVA MH	2 851	-
Councillor DE WET JC	19 828	-
Councillor DYAN ML	1 323	-
Councillor DYANTYI SR	151	-
Councillor DYWILI ZA/H	308	-
Councillor GAJU SL	321	-
Councillor GWANTSHU MZ	501	-
Councillor HEYMAN RL	220	-

Figures in Rand	2011	2010
49. Additional disclosure in terms of Municipal Finance Management Act (continued)		
Councillor HOKOLO MS	2 083	-
Councillor JIKELE LE	21 206	-
Councillor JOCKI TM/S	8 292	-
Councillor MANDILE JT/NE	2 123	-
Councillor MANTASHE TP	656	-
Councillor MAQUNGO NL	692	-
Councillor MNYAKA M	24 129	-
Councillor NDALISO MR	1 872	-
Councillor NONTSELE MH	155	-
Councillor SHAW JM	470	-
Councillor SNYDERS A	293	-
Councillor TSOTETSI EN	139	-
	110 265	**-**

30 June 2010	Highest outstanding amount	Aging (in days)
Councillor ZA Beje	7 383	-
Councillor TM/S Jocki	429	-
Councillor NB Keva	1 582	-
Councillor MH Bokuva	1 798	-
Councillor JJ Makasi	173	-
Councillor M Blekiwe	20 598	-
	31 963	**-**

50. Utilisation of Long-term liabilities

	2011	2010
Long-term liabilities raised	3 437 063	3 505 866

Long-term liabilities have been utilized in accordance with the Municipal Finance Management Act. Sufficient cash has been set aside to ensure that long-term liabilities can be repaid on redemption date.

51. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.

- Non-compliance with the Supply chain management policy. The following services were not procured through competitive bidding process as the payment made as a payment made to suppliers made exceed R200,000.00.
- The SCM Policy was not properly followed during the year under review with the result that all approved tenders were irregular and therefore amounts paid on these tenders' amounts to irregular expenditure.
- Refer note 48 for the above.

52. Electricity distribution losses

The municipality incurred electricity distribution losses in the current year estimated at 31% (2009: 32%). This amounts to a loss of 61 567 685 kw-hours/ units.

Appendix A: Budget 2010/2011

REPORT OF THE AUDITOR-GENERAL TO THE EASTERN CAPE PROVINCIAL LEGISLATURE AND THE COUNCIL ON LUKHANJI MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I was engaged to audit the accompanying financial statements of the Lukhanji Municipality, which comprise the statement of financial position as at 30 June 2011, and the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information, and the accounting officer's report, as set out on pages ... to ....

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (GRAP) and the manner required by the Municipal Finance Management Act of South Africa, 2003 (Act No.56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2010 (Act No.1 of 2010 as amended) (DoRA). This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 (Act No.108 of 1996) and section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and section 126(3) of the MFMA, my responsibility is to express an opinion on the financial statements based on conducting the audit in accordance with the International Standards on Auditing and *General notice 1111 of 2010* issued in *Government Gazette 33872 of 15 December 2010*. Because of the matters described in the Basis for disclaimer of opinion paragraphs, however, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for disclaimer of opinion

Property, plant and equipment

4. An amount of R710,7 million (2010: R698,4 million) is disclosed as property, plant and equipment in note 4 to the financial statements. This amount is understated by R183,8 million due to the assets that have not been recorded in the asset register. Furthermore, the asset register maintained by the municipality consists of assets that could not be physically verified to the value of R84,1 million. In addition, the municipality could not provide sufficient appropriate audit evidence for the amount disclosed in note 4 to the financial statements, due to amounts not being reconciled with supporting records. There were no satisfactory alternative audit procedures that could be performed in these circumstances. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the completeness, existence, rights and obligations, valuation and allocation of property, plant and equipment.

5. The financial statements did not reflect any disposals during the financial year, however, a gain on sale of assets of R9,4 million (2010: R3,3 million) was reflected in the statement of financial performance. The municipality did not provide documentation supporting the gain on sale of assets. The municipality's records did not permit the application of alternative audit procedures relating to property, plant and equipment. Consequently, I did not obtain all the information and explanations I considered necessary to satisfy myself as to the occurrence and accuracy of the gain on sale of assets as well as the completeness of disposals in note 4 to the financial statements.

Investment property

6. The municipality did not provide sufficient supporting schedules for investment property disclosed as R91,3 million (2010: R91,3 million) in the statement of financial position as a detailed composition of investment property was not provided for audit purposes. The municipality's records did not permit the application of alternative audit procedures. As a result, I did not obtain sufficient appropriate audit evidence relating to the existence, completeness, rights and obligations and valuation and allocation of investment property at year end.

Inventory

7. Land used for the construction of Reconstruction and Development Houses had not been reclassified as inventory, as prescribed by GRAP 12, *Inventory*. The value of the land could not be determined due to the incompleteness of the fixed asset register. The municipality's records did not permit the application of alternative audit procedures. Consequently, I could not determine the completeness, existence, valuation and allocation of land incorrectly allocated to property, plant and equipment.

Accumulated surplus

8. Accumulated surplus at year-end totalling R925,9 million, as disclosed in the statement of financial position, could not be confirmed due to the uncorrected misstatements in the opening balance and the take-on values relating to property, plant and equipment and investment property. As the municipality's records did not permit the application of alternative audit procedures relating to the opening balance and take-on values, I did not obtain all the information and explanations I considered necessary to satisfy myself as to the completeness, occurrence, valuation and allocation of accumulated surplus.

Other receivables from exchange transactions

9. An amount of R106,1 million (R77,7 million) is disclosed as the Chris Hani Agency account, included in other receivables from exchange transactions in note 9 to the financial statements. This amount is overstated by R110,2 million as it could not be reconciled with supporting schedules. In addition, the municipality could not provide sufficient appropriate audit evidence for the amount disclosed as there were no adequate systems to record water and sanitation services provided on behalf of the district municipality. There were no satisfactory alternative audit procedures that I could perform in these circumstances. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the existence, completeness, valuation and allocation of the Chris Hani Agency account.

Value-added tax (VAT) receivable

10. The municipality could not provide a reconciliation of the net VAT receivable of R1,5 million (2010: R3,7 million) with the balance according to the South African Revenue Service's statement of account of R6,3 million at 30 June 2011. The municipality's records did not permit the application of alternative audit procedures. As a result, I was unable to obtain sufficient appropriate evidence relating to the existence, completeness and valuation of the VAT receivable as disclosed in the statement of financial position.

11. Furthermore, the municipality did not apply the VAT apportionment method as prescribed by the Value-Added Tax Act, 1991 (Act No. 89 of 1991). The municipality's records did not permit the application of alternative audit procedures. Consequently, I could not determine the effect on the accuracy and completeness of expenditure, as disclosed in the statement of financial performance.

Trade receivable from exchange transactions

12. Trade receivables from exchange transactions with a net balance of R20,3 million (2010: R31,7 million) disclosed in the statement of financial position, could not be supported with adequate documentation and schedules. In addition, the debt impairment provision of R153,5 million as disclosed in note 12 to the financial statements, has not been provided for in terms of the International Accounting Standard, IAS 39: *Financial Instruments: Recognition and Measurement*. The municipality's records did not permit the application of alternative audit procedures. Consequently, I did not obtain sufficient appropriate audit evidence relating to the existence, completeness, valuation and allocation of trade receivables.

13. The debt impairment expenditure of R57,5 million as disclosed in the statement of financial performance, was not supported by adequate documentation and schedules. The write-off of debtors was not supported by documentation and was not set off against the prior year debt impairment provision. The municipality's records did not permit the application of alternative audit procedures. Consequently, I did not obtain sufficient appropriate audit evidence relating to the occurrence and accuracy of debt impairment.

Revenue from exchange transactions

14. Service charges as disclosed in the statement of financial performance amounting to R130,5 million are understated by R78,9 million due to instances where consumers have not been charged for services or services that have not been levied per the approved tariff. Furthermore, there is an unexplained difference between the general ledger and the billing system of R2,8 million. The municipality's records did not permit the application of alternative audit procedures. As a result, I did not obtain sufficient appropriate audit evidence relating to the completeness, cut-off, accuracy and occurrence of service charges.

Revenue from non-exchange transactions

15. Property rates revenue of R39,3 million (2010: R32,7 million) as disclosed in the statement of financial performance is based on the general valuation which has not been reconciled with the general ledger by R5,8 million. Furthermore, properties have been captured onto the general ledger at incorrect values and not all land parcels have been captured in the general ledger. The municipality's records did not permit the application of alternative

audit procedures. Consequently, I did not obtain sufficient appropriate audit evidence relating to the completeness, cut-off, accuracy and occurrence of property rates revenue.

Employee-related costs

16. Employee-related costs amounting to R88,6 million (2010: R74,0 million) did not reconcile with the payroll, with an unexplained difference of R7,7 million. In addition, the municipality's records pertaining to overtime, contract work, allowances and basic salary could not be agreed to supporting documentation. The municipality's records did not permit the application of alternative audit procedures. Consequently, I did not obtain sufficient appropriate audit evidence relating to the occurrence, accuracy and completeness of employee costs.

Conditional grants

17. The municipality did not provide supporting documentation for unspent conditional grants and receipts totalling R15,5 million (2010: R36,6 million) as disclosed in the statement of financial position and government grant and subsidies revenue of R125,3 million (2010: R121,8 million) and grants and subsidies paid of R6,7 million (2010: R24,0 million), as disclosed in the statement of financial performance. The municipality did not maintain adequate records and supporting documentation for journal entries relating to conditional grant income and expenditure. Furthermore, I could not determine whether conditional grants were utilised for their intended purpose which would have resulted in unauthorised expenditure. The municipality's records did not permit the application of alternative audit procedures. Consequently, I could not determine the completeness, existence and valuation of unspent conditional grants and receipts, the completeness, occurrence and accuracy of conditional grant revenue and expenditure and the completeness of unauthorised expenditure.

Trade and other payables from exchange transactions

18. The municipality did not provide explanations and documentation in support of payments received in advance totalling R6,4 million (2010: R5,1 million), as included in note 18 to the financial statements as part of trade and other payables from exchange transactions. The municipality's records did not permit the application of alternative audit procedures. Consequently, I could not determine the completeness, existence and valuation of trade and other payables.

19. Accrued leave pay, as included in trade and other payables, disclosed in note 18 to the financial statements, have been calculated using inaccurate leave records. This resulted from poor maintenance of employee leave records and a lack of monitoring of employee leave balances. As a result, accrued leave pay has been overstated by R7,7 million while employee-related costs as disclosed in the statement of financial performance have been overstated by the same amount.

Expenditure

20. Administration income of R8,6 million as disclosed in the statement of financial performance has been classified as expenditure and could not be agreed to supporting documentation. The municipality's records did not permit the application of alternative audit procedures. Consequently, I could not confirm the occurrence and accuracy of

administration income.

Irregular expenditure

21. Section 125(2) of the MFMA requires the financial statements of the municipality to disclose material irregular expenditure that occurred during the financial year. Audited payments amounting to R6,1 million (2010: R1,5 million) were irregular as they were made in contravention of the supply chain management requirements. These amounts were not included in the irregular expenditure disclosure note 48 to the financial statements. Consequently, irregular expenditure as disclosed is understated by at least this amount, it was not, however, practicable to determine the full extent of the understatement as there was no system of control in place to identify all irregular expenditure incurred.

Disclosure

22. Revenue, expenditure, accounts receivable and accounts payable have not been disclosed and measured at fair value taking into account imputed interest as required by the International Financial Reporting Standard, IFRS 7 Financial Instruments: Disclosure and the International Accounting Standard, IAS 39 Financial Instruments: Recognition and Measurement. Due to the limitations described in the above paragraphs, I was unable to determine the extent of these misstatements. Consequently, I was unable to determine the accuracy of revenue and expenditure and the valuation of accounts receivable and account payable.

Disclaimer of opinion

23. Because of the significance of the matters described in the basis for disclaimer of opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis of an audit opinion. Accordingly, I do not express an opinion on the financial statements.

Emphasis of matters

24. I draw attention to the matters below. My opinion is not modified in respect of these matters:

Restatement of corresponding figures

25. Misstatements in the corresponding figures which were identified during the prior period audit of the financial statements, were corrected by management. Restatement of a number of classes of transactions and account balances took place as disclosed in note 43 to the financial statements.

Material losses

26. The municipality incurred distribution losses of approximately 31% (2010: 32%) or 61 567 685 kw-hours/units on electricity due to technical losses on the existing network, faulty meters, own use, billing errors and theft. These losses have been disclosed in note 52 to the financial statements as required by section 125(1)(d) of the MFMA.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

27. In accordance with the PAA and in terms of *General Notice 1111 of 2010*, issued in *Government Gazette 33872 of 15 December 2010,* I include below my findings on the annual performance report as set out on pages ... to ... and material non-compliance with laws and regulations applicable to the municipality.

Presentation of information

28. The following criteria is relevant to the finding below:

- Performance against predetermined objectives is reported in accordance with section 46 of the MSA.

Measures taken to improve performance were not provided in the performance report

29. Measures taken to improve performance were not provided in the performance report, as required in terms of section 46(1)(c) of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA). In total 88% of the reported targets had no details of the measures taken to improve performance.

Usefulness of information

30. The following criteria are relevant to the findings below:

- Consistency: Objectives, indicators and targets are consistent between planning and reporting documents
- Relevance: A clear and logical link exists between the objectives, outcomes, outputs, indicators and performance targets
- Measurability: Indicators are well defined and verifiable, and targets are specific, and measurable and time bound

Reported objectives, indicators and targets are not consistent when compared with the planned objectives, indicators and targets

31. Reported performance against predetermined objectives, indicators and targets is not consistent with the approved integrated development plan. In total, 100% of the reported objectives, indicators and targets were not consistent when compared to the planned objectives, indicators and targets.

Planned indicators and targets are not relevant to the objectives of the entity

32. In more than 25% of instances the indicators and targets as per the annual performance report did not relate directly to the institution's objectives included in the five-year integrated development plan.

Planned and reported indicators are not well defined

33. For the selected objectives, 40% of the planned and reported indicators were not clear, as well defined data definitions were not available to allow for data to be collected consistently.

Planned and reported indicators are not verifiable

34. For the selected objectives, valid performance management processes and systems that record actual performance against the planned indicators do not exist for 37% of the

performance indicators.

Planned and reported targets are not specific, measurable and time bound

35. For the selected objectives:

- Forty-three per cent (43%) of the planned and reported targets were not specific in clearly identifying the nature and the required level of performance and were not measurable in identifying the required performance.
- Eighty-eight per cent (88%) of the planned and reported targets were not time bound in specifying the time period or deadline for delivery.

Reliability of information

36. The following criteria are relevant to the findings below:

- Validity: Actual reported performance has occurred and pertains to the entity
- Accuracy: Amounts, numbers, and other data relating to reported actual performance have been recorded and reported appropriately
- Completeness: All actual results and events that should have been recorded have been included in the annual performance report

The validity, accuracy, completeness of reported performance against indicators and targets could not be confirmed as no supporting source information was provided

37. For the objective relating to the facilitation of electricity backlogs, the validity, accuracy and completeness of the reported indicators and targets could not be established as relevant source documentation could not be provided.

Reasons for major variances between planned and actual reported targets were not supported by sufficient appropriate evidence

38. Sufficient appropriate evidence to support the reasons for major variances between the planned and the actual reported targets could not be obtained. The reasons provided for major variances could not be verified. In total, 88% of the reported targets with major variances were not explained.

Sufficient appropriate evidence was not submitted to support reported indicators and targets

39. Sufficient appropriate evidence in relation to the facilitation of the electricity backlog objective could not be obtained. There were no satisfactory audit procedures that I could perform to obtain the required assurance as to the validity, accuracy and completeness of the reported performance against predetermined objectives.

Compliance with laws and regulations

Strategic planning and performance management

40. The accounting officer of the municipality did not by 25 January 2011 assess the performance of the municipality during the first half of the financial year, taking into account the municipality's service delivery performance during the first half of the financial year and the service delivery targets and performance indicators set in the service delivery and

budget implementation plan as required by section 72(1)(a)(ii) of the MFMA.

41. The accounting officer of the municipality did not submit the results of the assessment on the performance of the municipality during the first half of the financial year to the mayor of the municipality, the National Treasury, and the provincial treasury as required by section 72(1)(b) of the MFMA.

Budgets

42. The mayor did not submit all quarterly reports to the council on the implementation of the budget and the financial state of affairs of the municipality within 30 days after the end of each quarter, as required by section 52(d) of the MFMA.

43. The accounting officer did not always submit the monthly budget statements to the mayor and the Eastern Cape Provincial Treasury, as required by section 71(1) of the MFMA.

Annual financial statements, performance and annual report

44. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of capital assets, current assets, liabilities, revenue, and disclosure items identified by the auditors were subsequently adjusted; however, the uncorrected material misstatements, together with the limitations imposed on the audit, resulted in the financial statements receiving a disclaimed audit opinion.

45. The accounting officer did not make public the council's oversight report on the 2009-10 annual report within seven days of its adoption, as required by section 129(3) of the MFMA.

46. The annual performance report did not contain a comparison of the performance of the municipality with development priorities, objectives and performance indicators set out in its integrated development plan as required by section 46 of the MSA.

Audit committee

47. The audit committee did not advise the municipal council, the political office-bearers, the accounting officer and the management staff of the municipality on matters relating to compliance with the MFMA the Division of Revenue Act and other applicable legislation as required by section 166(2)(a) of the MFMA.

Internal audit

48. The internal audit processes and procedures did not include assessments of the extent to which the municipality's performance measurements were reliable in measuring the performance of the municipality on key as well as general performance indicators. Furthermore, the internal auditor did not audit the performance measurements on a continuous basis as required by Municipal Planning and Performance Management Regulation 14.

Procurement and contract management

49. Goods and services with a transaction value of between R10 000 and R200 000 were procured without obtaining written price quotations from at least three different prospective providers as per the requirements of Supply Chain Management (SCM) regulation 17(a) & (c).

50. Quotations were accepted from prospective providers who are not on the list of accredited prospective providers and do not meet the listing requirements prescribed by the SCM policy in contravention of SCM regulations 16(b) and 17(b).

51. Bid specifications for procurement of goods and services through competitive bids were drafted in a biased manner that did not allow all potential suppliers to offer their goods or services as per the requirements of SCM regulation 27(2)(a).

52. Awards were made to providers based on criteria that differed from those stipulated in the original bid documents and/or were not stipulated in the original bid documents as per the requirements of SCM regulations 21(b) and 28(1).

53. Bid specifications were not always drafted by bid specification committees which were composed of one or more officials of the municipality as required by SCM regulation 27(3).

54. Bids were not always evaluated by bid evaluation committees which were composed of officials from the departments requiring the goods or services as per the requirements of SCM regulation 28(2).

55. Awards were made to providers whose tax matters had not been declared by the South African Revenue Service to be in order as required by SCM regulation 43.

56. The preference point system was not applied in all procurement of goods and services above R30 000 as required by section 2(a) of the Preferential Procurement Policy Framework Act No.5 of 2000 (PPPFA) and SCM regulation 28(1)(a).

57. Awards were made to suppliers based on preference points that were not allocated and/or calculated in accordance with the requirements of the PPPFA and its regulations.

58. Awards were made to suppliers that did not score the highest points in the evaluation process as per the requirements of section 2(1)(f) of PPPFA.

59. The performance of contractors or providers was not monitored on a monthly basis as required by section 116(2)(b) of the MFMA.

60. The contract performance measures and methods whereby they are monitored were insufficient to ensure effective contract management as per the requirements of section 116(2)(c) of the MFMA.

Human resource management

61. Senior managers directly accountable to the municipal manager did not sign annual performance agreements for the year under review, as required by section 57(1)(b) and 57(2)(a) of the MSA.

Expenditure management

62. Money owing by the municipality was not always paid within 30 days of receiving an invoice or statement, as required by section 65(2)(e) of the MFMA.

63. The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained a management, accounting and information system which accounted for creditors of the municipality as required by section 65(2)(b) of the MFMA.

64. The accounting officer did not take reasonable steps to prevent irregular expenditure as required by section 62(1)(d) of the MFMA.

65. The municipality did not recover irregular expenditure from the liable person, as required by section 32(2) of the MFMA.

Conditional grants

66. Sufficient appropriate audit evidence could not be obtained that the allocations for the municipal infrastructure grant, neighbourhood development partnership grant (indirect), expanded public works programme incentive grant, rural household infrastructure grant and the integrated national electrification grant (Eskom) were utilised for the purposes stipulated in their respective schedules or Gazetted DoRA framework, as required by section 15(1) of the DORA.

67. The municipality did not always submit monthly reports to the transferring national officer, the National Treasury and the provincial treasury on spending and financial performance in respect of the allocations received for municipal infrastructure grant, neighbourhood development partnership grant (indirect), expanded public works programme incentive grant, rural household infrastructure grant and the integrated national electrification grant (Eskom), as required by section 11(2)(b) of the DoRA and section 71(5) of the MFMA.

68. The municipality did not always submit quarterly reports to the transferring national officer on non-financial performance in respect of the allocation received for municipal infrastructure grant, neighbourhood development partnership grant (indirect), expanded public works programme incentive grant, rural household infrastructure grant and the integrated national electrification grant (Eskom), as required by section 11(2)(c) of the DoRA.

Revenue management

69. Revenue received by the municipality was not always reconciled at least on a weekly basis, as required by section 64(2)(h) of the MFMA.

70. The council did not implement a tariff policy on the levying of fees for municipal services provided by the municipality, contrary to section 74(1) of the MSA.

71. The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained a management, accounting and information system which recognised revenue when it is earned, accounted for debtors and accounted for receipts of revenue, as required by section 64(2)(e) of the MFMA.

Asset management

72. The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained a management, accounting and information system which accounts for the assets of the municipality as required by section 63(2)(a) of the MFMA.

73. The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained an effective system of internal control for assets as required by section 63(2)(c) of the MFMA.

INTERNAL CONTROL

74. In accordance with the PAA and in terms of *General Notice 1111 of 2010*, issued in *Government Gazette 33872 of 15 December 2010,* I considered internal control relevant to my audit, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported below are limited to the significant deficiencies that resulted in the basis for disclaimer of opinion, the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

Leadership

75. There is a lack of oversight and accountability of senior management as sufficient monitoring controls are not in place to ensure the proper implementation of the overall process of planning, budgeting, implementation and reporting and adherence to internal policies and procedures at department level and for the purpose of taking corrective action. Although the audit action plan was formulated and implemented, it was not effective and properly monitored as audit findings on revenue, assets, conditional grant expenditure, current liabilities and current assets were repeated in the current financial year.

76. The municipality does not have adequate processes in place to identify and record irregular expenditure. There is a lack of monitoring by senior management which resulted in irregular expenditure identified in the year under review.

Financial and performance management

77. The municipality's manual and automated controls are not designed and implemented to ensure that the transactions have occurred, are authorised, and are completely and accurately processed. Management does not adequately manage transactions upon recording, which resulted in the findings under the Basis for disclaimer opinion paragraphs, predetermined objectives and compliance with laws and regulations.

78. The municipality did not prepare monthly financial performance reports. Furthermore, the municipality did not prepare monthly reconciliations relating to revenue, conditional grant expenditure, payroll and creditors. This has resulted in a lack of supporting documentation to explain material differences found during the audit.

79. There are inadequate processes and systems in place to ensure reporting against pre-determined objectives. Documentation was not available during the audit to support actual results achieved performance report.

Governance

80. The municipality did not implement the approved and adopted fraud prevention plan and it could not be determined if a risk management plan, as required by the fraud prevention plan, was prepared, approved and implemented during the year under review. The municipality does not have a formal risk assessment process for the IT system in use at the municipality. This reduces the ability to appropriately address any significant deficiencies, thus increasing the number of material misstatements in the financial statements.

81. The internal audit unit and the audit committee were not fully functional for the entire financial year due to the audit charter and plan only being adopted on 28 January 2011. The audit committee was ineffective due to multiple resignations during the financial period.

OTHER REPORTS

Investigations

82. The Eastern Cape Department of Local Government and Traditional Affairs commissioned a forensic investigation into the unauthorised transfer of funds relating to the prior financial period and as reported in the previous financial period. The forensic report was issued, which resulted in council appointing a committee to further investigate the matter, with the assistance of the bank at which the transfer took place. The committee has formulated recommendations to the council on how to respond to the MEC. The outcome of the investigation has not yet been made public.

83. An investigation has been completed subsequent to year-end, whereby the municipality dismissed an official on grounds of inappropriate and irregular conduct, relating to tampering with the minutes of the bid evaluation committee.

Auditor-General.

East London

30 November 2011

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

APPENDIXES

LUKHANJI
MUNICIPALITY - UMASIPALA - MUNISIPALITEIT
ADMINISTRATION AND HUMAN RESOURCES
Private Bag X7111, Queenstown 5320
Tel: 045 - 807 2641
Fax: 045 - 807 2707
E-mail: administration@lukhanji.co.za

NOTICE IS HEREBY GIVEN THAT A MEETING OF THE AUDIT COMMITTEE OF LUKHANJI MUNICIPALITY WILL BE HELD ON TUESDAY, 31 AUGUST 2010 AT 08:00 IN THE BOARD ROOM, OFFICE OF THE MUNICIPAL MANAGER, LUKHANJI MUNICIPALITY

P BACELA
MUNICIPAL MANAGER

* * * * * * * * * * * * *

<u>Distribution List</u>

Mrs T. Putzier: Chairperson: Audit Committee	Mr E. Minnie: Internal Auditor
Mr V. Hartley: Member: Audit Committee	Mr L. Ntlale: Acting Director: Administration and H.R.
Mr G. Groenewald: Member : Audit Committee	Mr A. Wanjau: Ernst & Young
Mr P. Bacela: Municipal Manager	Mrs N. Barnard: Auditor General South Africa
Mr I. Schoeman: Chief Financial Officer	

* * * * * * * * * * * * *

1. OPENING AND WELCOME

2. APOLOGIES

3. DECLARATION OF INTEREST

Members of the Audit Committee need to declare their interests in writing.

A declaration form will be distributed in the meeting.

FOR INFORMATION

4. DRAFT ANNUAL FINANCIAL STATEMENTS

At a meeting of the Audit Committee of Lukhanji Municipality held on Monday, 14 June 2010 it was resolved that the Annual Financial Statements be submitted at the next meeting of the Audit Committee of Lukhanji Municipality.

ANNEXURE 1 – 52 is the draft Annual Financial Statements for the year ended 30 June 2010.

FOR DISCUSSION

5. CLOSURE

****

AUDIT 1

MINUTES OF A MEETING OF THE AUDIT COMMITTEE OF LUKHANJI MUNICIPALITY HELD ON TUESDAY, 31 AUGUST 2010 AT 08:00 IN THE BOARD ROOM, OFFICE OF THE MUNICIPAL MANAGER

PRESENT

T PUTZIER
CHAIRPERSON

G GROENEWALD
AUDIT COMMITTEE MEMBER

A WANJAU
ERNST AND YOUNG

I SCHOEMAN
CHIEF FINANCIAL OFFICER

J JONKER
MANAGER: BUDGET AND TREASURY

E MINNIE
INTERNAL AUDITOR

L HAWU
FINANCIAL INTERN

X MAKELENI
ADMINISTRATION MANAGER

V MATUTU
COMMITTEE CLERK

1. OPENING AND WELCOME

The Chairperson, Mrs T. Putzier, opened the meeting and welcomed all present.

2. APOLOGIES

Mr P. Bacela
Municipal Manager

3. ABSENT

Mr V. Hartley
Audit Committee member

4. DECLARATION OF INTEREST

Members of the Audit Committee declared their interests in writing.

5. DRAFT ANNUAL FINANCIAL STATEMENTS

RESOLVED

That it be noted that the Manager: Budget and Treasury, Mr J. Jonker, presented the draft Annual Financial Statements for the year ended 30 June 2010.

6. CLOSURE

The meeting terminated at 09:00.

****

CONFIRMED:

CHAIRPERSON: ________________________________

DATE: ________________________________

LUKHANJI

MUNICIPALITY - UMASIPALA - MUNISIPALITEIT

ADMINISTRATION AND HUMAN RESOURCES

Private Bag X7111, Queenstown 5320

Tel: 045 - 807 2641

Fax: 045 - 807 2707

E-mail: administration@lukhanji.co.za

NOTICE IS HEREBY GIVEN THAT A MEETING OF THE AUDIT COMMITTEE OF LUKHANJI MUNICIPALITY WILL BE HELD ON MONDAY, 18 OCTOBER 2010 AT 10:30 IN THE BOARDROOM, OFFICE OF THE MUNICIPAL MANAGER, LUKHANJI MUNICIPALITY

P BACELA
MUNICIPAL MANAGER

* * * * * * * * * * * * *

Distribution List

Mrs T. Putzier: Chairperson: Audit Committee	Mr E. Minnie: Internal Auditor
Mr V. Hartley: Member: Audit Committee	Mr L. Ntlale: Acting Director: Administration and H.R.
Mr G. Groenewald: Member : Audit Committee	Mr P. Bezuidenhout: Director: Technical Services
Mr P. Bacela: Municipal Manager	Mr D. McKerry: IT Manager
Mr I. Schoeman: Chief Financial Officer	Ms. V. Van Wyk: Manager: Revenue
Mr A. Wanjau: Ernst & Young	Mr M. Ngxobongwana: Human Resources Manager
Mrs N. Barnard: Auditor General South Africa	Ms. M. Mfazi: Chief Professional Nurse

* * * * * * * * * * * * *

1. OPENING AND WELCOME

2. APOLOGIES

3. DECLARATION OF INTEREST

Members of the Audit Committee need to declare their interests in writing.

A declaration form will be distributed in the meeting.

FOR INFORMATION

4. MINUTES OF THE MEETING OF THE AUDIT COMMITTEE OF LUKHANJI MUNICIPALITY HELD ON MONDAY, 14 JUNE 2010 AT 10:45 IN THE BOARDROOM, OFFICE OF THE MUNICIPAL MANAGER

Annexed as **AUDIT 1 – 2** are the minutes of the meeting of the Audit Committee of Lukhanji Municipality held on Monday, 14 June 2010.

It is

RECOMMENDED

That the minutes of the meeting of the Audit Committee of Lukhanji Municipality held on Monday, 14 June 2010 be confirmed.

5. MINUTES OF THE MEETING OF THE AUDIT COMMITTEE OF LUKHANJI MUNICIPALITY HELD ON TUESDAY, 31 AUGUST 2010 AT 08:00 IN THE BOARDROOM, OFFICE OF THE MUNICIPAL MANAGER

Annexed as **AUDIT 3** are the minutes of the meeting of the Audit Committee of Lukhanji Municipality held on Tuesday, 31 August 2010.

It is

RECOMMENDED

That the minutes of the meeting of the Audit Committee of Lukhanji Municipality held on Tuesday, 31 August 2010 be confirmed.

5.1 MATTERS ARISING

6. INTERNAL AUDIT REPORT: INFRASTRUCTURE NEEDS

ANNEXURE 1 – 11 is an Internal Audit Report dated June 2010 as submitted by Ernst & Young on the Infrastructure Needs of Lukhanji Municipality.

At a meeting of the Audit Committee of Lukhanji Municipality held on 14 June 2010 it was resolved that the Director of Technical Services be invited to attend the next meeting of the Audit Committee to give feedback on the need analysis that will be performed.

The Director: Technical Services will be in attendance.

FOR DISCUSSION

7. INTERNAL AUDIT REPORT: IT GENERAL CONTROLS: LUKHANJI MUNICIPALITY

ANNEXURE 12 – 19 is an Internal Audit Report dated April 2010 as submitted by Ernst & Young on Lukhanji Municipality's IT General Controls.

FOR DISCUSSION

8. FOLLOW UP AUDIT REPORT: INCOME AND DEBTORS

ANNEXURE 20 – 27 is a follow up Audit Report dated 15 June 2010 as submitted by the Internal Auditor on Income and Debtors.

FOR DISCUSSION

9. FOLLOW UP AUDIT REPORT: HUMAN RESOURCES MANAGEMENT: ATTENDANCE REGISTERS/CLOCK CARDS AND LEAVE RECORDS

ANNEXURE 28 – 37 is a follow up Audit Report dated 23 September 2010 as submitted by the Internal Auditor on Human Resources Management for Attendance Registers/Clock Cards and Leave Records.

FOR DISCUSSION

10. FOLLOW UP AUDIT REPORT: IMPACT OF HIV/AIDS ON POPULATION DEMOGRAPHICS, FAMILY STRUCTURES AND WORKFORCE

ANNEXURE 38 – 42 is a follow up Audit Report dated 23 August 2010 as submitted by the Internal Auditor on the Impact of HIV/AIDS on Population Demographics, Family Structures and Workforce.

FOR DISCUSSION

11. FOLLOW UP AUDIT REPORT: EXPENDITURE AND CREDITORS

ANNEXURE 43 – 47 is a follow up Audit Report dated 22 July 2010 as submitted by the Internal Auditor on Expenditure and Creditors.

FOR DISCUSSION

12. FOLLOW UP AUDIT REPORT: ASSETS TRACING TO THE FIXED ASSET REGISTER

ANNEXURE 48 – 55 is a follow up Audit Report dated 06 August 2010 as submitted by the Internal Auditor on Assets Tracing to the Fixed Asset Register.

FOR DISCUSSION

13. AUDIT ACTION PLAN

At a meeting of the Audit Committee of Lukhanji Municipality held on Wednesday, 21 April 2010 it was resolved that the Audit Action Plan to address issues raised by the Auditor General for the year ended 30 June 2009 be a standing item on future agendas of the Audit Committee.

ANNEXURE 56 – 69 is the Audit Action Plan to address issues raised by the Auditor General for the year ended 30 June 2009.

FOR DISCUSSION

14. UPDATE ON AUDIT OF THE AUDITOR GENERAL: 2009/2010 FINANCIAL YEAR

A representative from the office of the Auditor General South Africa will address the meeting regarding an update on the audit of the Auditor General for the 2009/2010 financial year.

FOR INFORMATION

15. CLOSURE

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AUDIT: 18 OCTOBER 2010

AUDIT 1

MINUTES OF A MEETING OF THE AUDIT COMMITTEE OF LUKHANJI MUNICIPALITY HELD ON MONDAY, 18 OCTOBER 2010 AT 10:30 IN THE BOARDROOM, OFFICE OF THE MUNICIPAL MANAGER

PRESENT

T PUTZIER
CHAIRPERSON

G GROENEWALD
AUDIT COMMITTEE MEMBER

A WANJAU
ERNST AND YOUNG

P BACELA
MUNICIPAL MANAGER

P BEZUIDENHOUT
DIRECTOR: TECHNICAL SERVICES

N MFAZI
CHIEF PROFESSIONAL NURSE

V MATUTU
COMMITTEE CLERK

E MINNIE
INTERNAL AUDITOR

L HAWU
FINANCIAL INTERN

L NTLALE
ACTING DIRECTOR: ADMINISTRATION AND H.R.

D McKERRY
ACTING CHIEF FINANCIAL OFFICER

V VAN WYK
REVENUE MANAGER

N BARNARD
AUDITOR GENERAL

1. OPENING AND WELCOME

The Chairperson, Mrs T. Putzier, opened the meeting and welcomed all present.

2. APOLOGIES

I Schoeman
Chief Financial Officer

3. ABSENT

Mr V. Hartley
Audit Committee Member

4. DECLARATION OF INTEREST

Members of the Audit Committee declared their interests in writing.

5. MINUTES OF THE MEETING OF THE AUDIT COMMITTEE OF LUKHANJI MUNICIPALITY HELD ON MONDAY, 14 JUNE 2010 AT 10:45 IN THE BOARDROOM, OFFICE OF THE MUNICIPAL MANAGER

RESOLVED

That the minutes of the meeting of the Audit Committee of Lukhanji Municipality held on Monday, 14 June 2010 be confirmed at the next meeting of the Audit Committee.

6. MINUTES OF THE MEETING OF THE AUDIT COMMITTEE OF LUKHANJI MUNICIPALITY HELD ON TUESDAY, 31 AUGUST 2010 AT 08:00 IN THE BOARDROOM, OFFICE OF THE MUNICIPAL MANAGER

RESOLVED

That the minutes of the meeting of the Audit Committee of Lukhanji Municipality held on Tuesday, 31 August 2010 be confirmed at the next meeting of the Audit Committee.

AUDIT 2

6.1 MATTERS ARISING

7. INTERNAL AUDIT REPORT: INFRASTRUCTURE NEEDS

RESOLVED

(a) That it be noted that regular assessments of the demands for future infrastructure in the Lukhanji area will be done by the Technical Services Directorate.

(b) That it be noted, the Technical Services Directorate is looking for funding for the process.

(c) That the Maintenance Reports be signed by the individual performing the reports as well as their Supervisor.

(d) That it be noted that the correct call centre numbers for water problems have been re-advertised.

8. INTERNAL AUDIT REPORT: IT GENERAL CONTROLS: LUKHANJI MUNICIPALITY

RESOLVED

(a) That it be noted that the draft IT Policies and the Service Level Agreement will be discussed at a meeting of Directors of the Lukhanji Municipality.

(b) That the due date for both documents be 30 November 2010.

9. FOLLOW UP AUDIT REPORT: INCOME AND DEBTORS

RESOLVED

(a) That the Manager: Revenue, Ms. V. Van Wyk, check on findings 3.4 Account No. 5279700013 i.f.o. Hangklip Laerskool where the water meter is running but the reading is standing still.

(b) That the consumer and the Electrician sign the Disconnection Form when a business is disconnected.

(c) That the Municipal Manager investigate the matter with Gaby Furnishers and N.D. Naidoo where they reconnected themselves after they were disconnected.

(d) That it be noted that a workshop will take place on 27 October 2010 regarding disconnections and reconnections and the team will work together and the Directorate of Technical Services will provide funding for the workshop.

(e) That the Directorate of Human Settlements endeavour to create a policy whereby deposits are charged on the initiation of housing rentals.

(f) That the Memorandum of Agreement for rentals of Lukhanji Municipality properties be reviewed to implement deposits, for all new tenants.

10. FOLLOW UP AUDIT REPORT: HUMAN RESOURCES MANAGEMENT: ATTENDANCE REGISTERS/CLOCK CARDS AND LEAVE RECORDS

RESOLVED

(a) That Attendance Registers of all Directorates be checked and signed on a daily basis by the Director, Manager or Supervisor to verify that the employee did actually work on that day.

(b) That the Directorate of Administration and Human Resources be given an extension of time to reconcile and recheck the leave balances up to the end of January 2011.

(c) That the Municipal Manager address the Directors at a meeting of Directors of the Lukhanji Municipality regarding the checking of Attendance Registers and Clock Cards.

AUDIT 3

11. FOLLOW UP AUDIT REPORT: IMPACT OF HIV/AIDS ON POPULATION DEMOGRAPHICS, FAMILY STRUCTURES AND WORKFORCE

RESOLVED

(a) That the Municipal Manager investigate the matter of vacant posts not being filled after interviews have taken place.

(b) That the Director: Community Services be requested to respond on the above matter.

(c) That the Audit Committee write a letter to the Mayoral Committee regarding vacant posts not being filled after interviews have taken place.

(d) That the HIV/AIDS Policy be reviewed.

(e) That Management make provision on the budget for the implementation of the reviewed policy.

12. FOLLOW UP AUDIT REPORT: EXPENDITURE AND CREDITORS

RESOLVED

(a) That a follow up audit be done on the implementation of control measures whereby outstanding orders are followed up on a monthly basis to ensure that invoices are obtained which should address the problem.

(b) That a follow up audit be done to evaluate the effectiveness of controls on creditor's invoices and the progress made in obtaining odometers and hour meters for the fleet.

13. FOLLOW UP AUDIT REPORT: ASSETS TRACING TO THE FIXED ASSET REGISTER

RESOLVED

(a) That a meeting with all Directorates be convened to ensure that the correct forms are used when assets are purchased or moved.

(b) That it be noted that a follow up audit will be done to verify that the controls have been implemented and are adequate and effective.

14. AUDIT ACTION PLAN

RESOLVED

That this item be a standing item on the agenda of the Audit Committee.

15. UPDATE ON AUDIT OF THE AUDITOR GENERAL: 2009/2010 FINANCIAL YEAR

RESOLVED

That the item be discussed at the next meeting of the Audit Committee.

16. CLOSURE

The meeting was terminated at 11:55.

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LUKHANJI
MUNICIPALITY - UMASIPALA - MUNISIPALITEIT
ADMINISTRATION AND HUMAN RESOURCES
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NOTICE IS HEREBY GIVEN THAT A MEETING OF THE AUDIT COMMITTEE OF LUKHANJI MUNICIPALITY WILL BE HELD ON THURSDAY, 09 DECEMBER 2010 AT 10:00 IN THE BOARDROOM, OFFICE OF THE MUNICIPAL MANAGER, LUKHANJI MUNICIPALITY

P BACELA
MUNICIPAL MANAGER

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Distribution List

Mrs T. Putzier: Chairperson: Audit Committee	Councillor G. Xoseni: Portfolio Holder: Budget & Treasury
Mr V. Hartley: Member: Audit Committee	Mr A. Wanjau: Ernst & Young
Mr G. Groenewald: Member : Audit Committee	Mrs N. Barnard: Auditor General South Africa
Mr P. Bacela: Municipal Manager	Mr E. Minnie: Internal Auditor
Mr D. McKerry: Acting Chief Financial Officer	Ms. L. Hawu: Financial Intern
Councillor M. Nontsele: Executive Mayor	Mr L. Ntlale: Acting Director: Administration and H.R.
	Ms. N. M. Dubasi

* * * * * * * * * * * * *

1. OPENING AND WELCOME

2. APOLOGIES

3. DECLARATION OF INTEREST

Members of the Audit Committee need to declare their interests in writing.

A declaration form will be distributed in the meeting.

FOR INFORMATION

4. MINUTES OF THE MEETING OF THE AUDIT COMMITTEE OF LUKHANJI MUNICIPALITY HELD ON MONDAY, 14 JUNE 2010 AT 10:45 IN THE BOARDROOM, OFFICE OF THE MUNICIPAL MANAGER

Annexed as **AUDIT 1 – 2** are the minutes of the meeting of the Audit Committee of Lukhanji Municipality held on Monday, 14 June 2010.

It is

RECOMMENDED

That the minutes of the meeting of the Audit Committee of Lukhanji Municipality held on Monday, 14 June 2010 be confirmed.

5. MINUTES OF THE MEETING OF THE AUDIT COMMITTEE OF LUKHANJI MUNICIPALITY HELD ON TUESDAY, 31 AUGUST 2010 AT 08:00 IN THE BOARDROOM, OFFICE OF THE MUNICIPAL MANAGER

Annexed as **AUDIT 3** are the minutes of the meeting of the Audit Committee of Lukhanji Municipality held on Tuesday, 31 August 2010.

It is

RECOMMENDED

That the minutes of the meeting of the Audit Committee of Lukhanji Municipality held on Tuesday, 31 August 2010 be confirmed.

6. MINUTES OF THE MEETING OF THE AUDIT COMMITTEE OF LUKHANJI MUNICIPALITY HELD ON MONDAY, 18 OCTOBER 2010 AT 10:30 IN THE BOARDROOM, OFFICE OF THE MUNICIPAL MANAGER

Annexed as **AUDIT 4 – 6** are the minutes of the meeting of the Audit Committee of Lukhanji Municipality held on Monday, 18 October 2010.

It is

RECOMMENDED

That the minutes of the meeting of the Audit Committee of Lukhanji Municipality held on Monday, 18 October 2010 be confirmed.

6.1 MATTERS ARISING

7. LUKHANJI MUNICIPALITY RISK REGISTER: OCTOBER 2010

ANNEXURE 1 – 8 is the Lukhanji Municipality Risk Register as at October 2010 submitted by Ernst & Young.

FOR INFORMATION

8. DRAFT AUDIT REPORT: 2009/2010 FINANCIAL YEAR

Representatives from the office of the Auditor General South Africa will address the meeting regarding the draft Audit Report for the 2009/2010 financial year.

FOR INFORMATION

9. PROPOSED MEETING DATES FOR 2011

The Committee needs to propose dates for meetings of the Audit Committee to be held in 2011.

FOR DISCUSSION

10. COMPILATION OF AUDIT COMMITTEE

The Chairperson has requested discussions around the future compilation of the Audit Committee.

FOR DISCUSSION

11. CLOSURE

Page 3

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AUDIT 1

MINUTES OF A MEETING OF THE AUDIT COMMITTEE OF LUKHANJI MUNICIPALITY HELD ON THURSDAY, 09 DECEMBER 2010 AT 10:00 IN THE BOARDROOM, OFFICE OF THE MUNICIPAL MANAGER

PRESENT

T PUTZIER CHAIRPERSON	E MINNIE INTERNAL AUDITOR
G GROENEWALD AUDIT COMMITTEE MEMBER	L HAWU FINANCIAL INTERN
A WANJAU ERNST AND YOUNG	N BARNARD AUDITOR GENERAL
P BACELA MUNICIPAL MANAGER	D McKERRY ACTING CHIEF FINANCIAL OFFICER
COUNCILLOR XOSENI PORTFOLIO HOLDER: BUDGET & TREASURY	X NTIKINCA DEPARTMENT OF LOCAL GOVERNMENT AND TRADITIONAL AFFAIRS
T MOTASI DEPARTMENT OF LOCAL GOVERNMENT AND TRADITIONAL AFFAIRS	M P MALGAS DEPARTMENT OF LOCAL GOVERNMENT AND TRADITIONAL AFFAIRS
V MATUTU COMMITTEE CLERK	

1. OPENING AND WELCOME

The Chairperson, Mrs T. Putzier, opened the meeting and welcomed all present.

2. APOLOGIES

M Nontsele Executive Mayor	L G Ntlale Acting Director: Administration and Human Resources

3. ABSENT

Mr V. Hartley
Audit Committee Member

4. DECLARATION OF INTEREST

Members of the Audit Committee declared their interests in writing.

5. MINUTES OF THE MEETING OF THE AUDIT COMMITTEE OF LUKHANJI MUNICIPALITY HELD ON MONDAY, 14 JUNE 2010 AT 10:45 IN THE BOARDROOM, OFFICE OF THE MUNICIPAL MANAGER

RESOLVED

That the minutes of the meeting of the Audit Committee of Lukhanji Municipality held on Monday, 14 June 2010 be confirmed.

6. MINUTES OF THE MEETING OF THE AUDIT COMMITTEE OF LUKHANJI MUNICIPALITY HELD ON TUESDAY, 31 AUGUST 2010 AT 08:00 IN THE BOARDROOM, OFFICE OF THE MUNICIPAL MANAGER

RESOLVED

That the minutes of the meeting of the Audit Committee of Lukhanji Municipality held on Tuesday, 31 August 2010 be confirmed.

AUDIT 2

7. MINUTES OF THE MEETING OF THE AUDIT COMMITTEE OF LUKHANJI MUNICIPALITY HELD ON MONDAY, 18 OCTOBER 2010 AT 10:30 IN THE BOARDROOM, OFFICE OF THE MUNICIPAL MANAGER

RESOLVED

That the minutes of the meeting of the Audit Committee of Lukhanji Municipality held on Monday, 18 October 2010 be confirmed.

7.1 MATTERS ARISING

8. LUKHANJI MUNICIPALITY RISK REGISTER: OCTOBER 2010

RESOLVED

That the Lukhanji Municipality Risk Register as at October 2010 submitted by Ernst & Young, be noted.

9. DRAFT AUDIT REPORT: 2009/2010 FINANCIAL YEAR

RESOLVED

(a) That the presentation on the draft Audit Report for the 2009/2010 financial year given by the representative from the office of the Auditor General South Africa, be noted.

(b) That all Section 57 Managers be requested to attend the first meeting of the Audit Committee to be held in January 2011.

(c) That in future the Directors responsible for the functions reported in the various Audit Reports be invited to attend the meeting of the Audit Committee where that specific Audit Report is being discussed in order to respond to queries raised.

10. PROPOSED MEETING DATES FOR 2011

RESOLVED

That the Chairperson of the Audit Committee contact the Assistant Administration Officer for possible dates for future meetings and report back at the next meeting of the Audit Committee.

11. COMPILATION OF AUDIT COMMITTEE

RESOLVED

(a) That it be noted Miss N. M. Dubase is a newly appointed member of the Audit Committee for Lukhanji Municipality.

(b) That the Municipal Manager check the Terms of Reference of Audit Committee Members as Mr V. Hartley has not attended four consecutive meetings.

(c) That it be noted that the Chairperson of the Audit Committee expressed concern that all minutes of the Audit Committee should be submitted to the Executive Mayor in order to be tabled at a meeting of Council.

12. CLOSURE

The meeting was terminated at 11:30.

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LUKHANJI
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NOTICE IS HEREBY GIVEN THAT A MEETING OF THE AUDIT COMMITTEE OF LUKHANJI MUNICIPALITY WILL BE HELD ON FRIDAY, 28 JANUARY 2011 AT 10:30 IN THE BOARDROOM, OFFICE OF THE MUNICIPAL MANAGER, LUKHANJI MUNICIPALITY

P BACELA
MUNICIPAL MANAGER

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Distribution List

Mrs T. Putzier: Chairperson: Audit Committee	Councillor G. Xoseni: Portfolio Holder: Budget & Treasury
Mr V. Hartley: Member: Audit Committee	Mr A. Wanjau: Ernst & Young
Mr G. Groenewald: Member : Audit Committee	Mrs N. Barnard: Auditor General South Africa
Ms. N. M. Dubasi: Member: Audit Committee: Lukhanji	Mr E. Minnie: Internal Auditor
Mr P. Bacela: Municipal Manager	Ms. L. Hawu: Financial Intern
Mr D. McKerry: Acting Chief Financial Officer	Mr L. Ntlale: Acting Director: Administration and H.R.
Councillor M. Nontsele: Executive Mayor	

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1. OPENING AND WELCOME

2. APOLOGIES

3. DECLARATION OF INTEREST

Members of the Audit Committee need to declare their interests in writing.

A declaration form will be distributed in the meeting.

FOR INFORMATION

4. MINUTES OF THE MEETING OF THE AUDIT COMMITTEE OF LUKHANJI MUNICIPALITY HELD ON THURSDAY, 09 DECEMBER 2010 AT 10:00 IN THE BOARDROOM, OFFICE OF THE MUNICIPAL MANAGER

Annexed as **AUDIT 1 – 2** are the minutes of the meeting of the Audit Committee of Lukhanji Municipality held on Thursday, 09 December 2010.

It is

RECOMMENDED

That the minutes of the meeting of the Audit Committee of Lukhanji Municipality held on Thursday, 09 December 2010 be confirmed.

4.1 MATTERS ARISING

5. PROPOSED MEETING DATES FOR 2011

The Chairperson of the Audit Committee has proposed the following dates for future meetings of the Audit Committee to be held in 2011:

28 February 2011
22 March 2011
23 May 2011
27 June 2011
25 July 2011
22 August 2011
26 September 2011
24 October 2011
28 November 2011

Members of the Audit Committee and officials are requested to bring their diaries to the meeting in order to finalise the proposed dates for 2011.

FOR DISCUSSION

6. INTERNAL AUDIT PLANS: 2011 TO 2013

ANNEXURE 1 – 32 is the Lukhanji Municipality Internal Audit Plans for the period 2011 to 2013.

FOR DISCUSSION

7. INTERNAL AUDIT CHARTER: LUKHANJI MUNICIPALITY

ANNEXURE 33 – 37 is the draft Lukhanji Municipality Internal Audit Charter.

It is

RECOMMENDED

That the draft Lukhanji Municipality Internal Audit Charter be approved.

8. CLOSURE

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LUKHANJI
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ADDENDUM TO THE MEETING OF THE AUDIT COMMITTEE OF LUKHANJI MUNICIPALITY TO BE HELD ON FRIDAY, 28 JANUARY 2011 AT 10:30 IN THE BOARDROOM, OFFICE OF THE MUNICIPAL MANAGER, LUKHANJI MUNICIPALITY

P BACELA
MUNICIPAL MANAGER

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9. RESIGNATION OF AUDIT COMMITTEE MEMBER: MR V. HARTLEY

ANNEXURE 1 – 2 is correspondence dated 19 January 2011, received from the Chairperson of the Audit Committee, Mrs T. Putzier, regarding a letter of resignation received from Mr V. Hartley.

FOR INFORMATION

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AUDIT 1

MINUTES OF A MEETING OF THE AUDIT COMMITTEE OF LUKHANJI MUNICIPALITY HELD ON FRIDAY, 28 JANUARY 2011 AT 11:00 IN THE BOARDROOM, OFFICE OF THE MUNICIPAL MANAGER

PRESENT

T PUTZIER CHAIRPERSON	E MINNIE INTERNAL AUDITOR
G GROENEWALD AUDIT COMMITTEE MEMBER	L HAWU FINANCIAL INTERN
A WANJAU ERNST AND YOUNG	N BARNARD AUDITOR GENERAL
P BACELA MUNICIPAL MANAGER	D McKERRY ACTING CHIEF FINANCIAL OFFICER
V MATUTU COMMITTEE CLERK	L NTLALE ACTING DIRECTOR: ADMINISTRATION AND H.R.

1. OPENING AND WELCOME

The Chairperson, Mrs T. Putzier, opened the meeting and welcomed all present.

2. APOLOGIES

M Nontsele, Executive Mayor	G Xoseni Portfolio Holder: Budget and Treasury

3. DECLARATION OF INTEREST

Members of the Audit Committee declared their interests in writing.

4. MINUTES OF THE MEETING OF THE AUDIT COMMITTEE OF LUKHANJI MUNICIPALITY HELD ON THURSDAY, 09 DECEMBER 2010 AT 10:00 IN THE BOARDROOM, OFFICE OF THE MUNICIPAL MANAGER

RESOLVED

That the minutes of the meeting of the Audit Committee of Lukhanji Municipality held on Thursday, 09 December 2010 be confirmed.

4.1 MATTERS ARISING

4.1.1 COMPILATION OF AUDIT COMMITTEE

RESOLVED

That it be noted, Miss N. M. Dubase is under consideration for a member of the Audit Committee and not a newly appointed member of the Audit Committee.

5. PROPOSED MEETING DATES FOR 2011

RESOLVED

That the meetings of the Audit Committee be held every second month unless there is an urgent matter.

6. INTERNAL AUDIT PLANS: 2011 TO 2013

RESOLVED

That the Lukhanji Municipality Internal Audit Plans for the period 2011 to 2013, be noted.

AUDIT 2

7. INTERNAL AUDIT CHARTER: LUKHANJI MUNICIPALITY

RESOLVED

That the draft Lukhanji Municipality Internal Audit Charter be approved.

8. RESIGNATION OF AUDIT COMMITTEE MEMBER: MR V. HARTLEY

RESOLVED

That the resignation letter received from Mr V. Hartley, be accepted.

9. GENERAL

9.1 AUDIT ACTION PLAN

(a) That it be noted that the Directorates are still busy preparing the Audit Action Plan and same will be submitted at the next meeting of the Audit Committee.

(b) That it be noted, the suspended employees from the Budget and Treasury Office are still on suspension.

10. CLOSURE

The meeting was terminated at 11:25.

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NOTICE IS HEREBY GIVEN THAT A MEETING OF THE AUDIT COMMITTEE OF LUKHANJI MUNICIPALITY WILL BE HELD ON TUESDAY, 10 MAY 2011 AT 14:00 IN THE BOARDROOM, OFFICE OF THE MUNICIPAL MANAGER, LUKHANJI MUNICIPALITY

P BACELA
MUNICIPAL MANAGER

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Distribution List

Mrs T. Putzier: Chairperson: Audit Committee	Mr A. Wanjau: Ernst & Young
Mr G. Groenewald: Member : Audit Committee	Ms. C. Smith: Auditor General South Africa
Mr P. Bacela: Municipal Manager	Mr E. Minnie: Internal Auditor
Miss L. Ngeno: Chief Financial Officer	Ms. L. Hawu: Financial Intern
Councillor G. Xoseni: Portfolio Holder: Budget & Treasury	Mrs N. K. Fololo: Director: Administration and H.R.

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1. OPENING AND WELCOME

2. APOLOGIES

3. DECLARATION OF INTEREST

Members of the Audit Committee need to declare their interests in writing.

A declaration form will be distributed in the meeting.

FOR INFORMATION

4. MINUTES OF THE MEETING OF THE AUDIT COMMITTEE OF LUKHANJI MUNICIPALITY HELD ON FRIDAY, 28 JANUARY 2011 AT 11:00 IN THE BOARDROOM, OFFICE OF THE MUNICIPAL MANAGER

Annexed as **AUDIT 1 – 2** are the minutes of the meeting of the Audit Committee of Lukhanji Municipality held on Friday, 28 January 2011.

It is

RECOMMENDED

That the minutes of the meeting of the Audit Committee of Lukhanji Municipality held on Friday, 28 January 2011 be confirmed.

4.1 MATTERS ARISING

5. REVISED RISK REGISTER

ANNEXURE 1 – 8 is the revised Risk Register of Lukhanji Municipality as at April 2011 submitted by Ernst & Young.

FOR INFORMATION

6. REVISED INTERNAL AUDIT PLANS: 2011 TO 2013

ANNEXURE 9 – 40 is the revised Internal Audit Plans of Lukhanji Municipality for the period 2011 to 2013.

FOR DISCUSSION

7. INTERNAL AUDIT REPORT ON REVENUE: ALIGNMENT OF TARIFFS WITH OPERATIONAL COSTS: LUKHANJI MUNICIPALITY

ANNEXURE 41 – 51 is an Internal Audit Report on Revenue: Alignment of Tariffs with Operational Costs dated 08 April 2011 as submitted by Ernst & Young.

FOR DISCUSSION

8. INTERNAL AUDIT REPORT ON IMPLEMENTATION OF CREDIT CONTROL AND DEBT COLLECTION POLICY: LUKHANJI MUNICIPALITY

ANNEXURE 52 – 69 is an Internal Audit Report on the Implementation of the Credit Control and Debt Collection Policy dated 07 April 2011 as submitted by Ernst & Young.

FOR DISCUSSION

9. AUDIT COMMITTEE CHARTER: LUKHANJI MUNICIPALITY: 2011

ANNEXURE 70 – 83 is the draft Audit Committee Charter for the Northern Cluster Municipalities of the Chris Hani District.

It is

RECOMMENDED

That the draft Audit Committee Charter for the Northern Cluster Municipalities of the Chris Hani District be approved.

10. AMENDED INTERNAL AUDIT REPORT: FACE VALUE DOCUMENTATION

ANNEXURE 84 – 92 is an amended report dated 24 January 2011 submitted by the Internal Auditor on the Internal Audit of Face Value Documentation.

FOR DISCUSSION

11. AUDIT ACTION PLAN: 2009/2010 FINANCIAL YEAR

ANNEXURE 93 – 102 is the Audit Action Plan to address issues raised by the Auditor General for the year ended 30 June 2010.

FOR DISCUSSION

12. CLOSURE

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AUDIT: 10 MAY 2011

AUDIT 1

MINUTES OF A MEETING OF THE AUDIT COMMITTEE OF LUKHANJI MUNICIPALITY HELD ON WEDNESDAY, 10 MAY 2011 AT 14:00 IN THE BOARDROOM, OFFICE OF THE MUNICIPAL MANAGER

PRESENT

T PUTZIER CHAIRPERSON	L HAWU FINANCIAL INTERN
G GROENEWALD AUDIT COMMITTEE MEMBER	N K FOLOLO DIRECTOR: ADMINISTRATION AND H.R.
A WANJAU ERNST AND YOUNG	L NGENO CHIEF FINANCIAL OFFICER
P BACELA MUNICIPAL MANAGER	G XOSENI PORTFOLIO HOLDER: BUDGET & TREASURY
X MAKELENI ADMINISTRATION MANAGER	N GXASHEKA DEPARTMENT OF LOCAL GOVERNMENT AND TRADITIONAL AFFAIRS
E MINNIE INTERNAL AUDITOR	

1. OPENING AND WELCOME

The Chairperson, Mrs T. Putzier, opened the meeting and welcomed all present.

2. APOLOGIES

Office of the Auditor General.

3. DECLARATION OF INTEREST

Members of the Audit Committee declared their interests in writing.

4. MINUTES OF THE MEETING OF THE AUDIT COMMITTEE OF LUKHANJI MUNICIPALITY HELD ON FRIDAY, 28 JANUARY 2011 AT 11:00 IN THE BOARDROOM, OFFICE OF THE MUNICIPAL MANAGER

RESOLVED

That the minutes of the meeting of the Audit Committee of Lukhanji Municipality held on Friday, 28 January 2011 be confirmed.

4.1 MATTERS ARISING

None.

5. REVISED RISK REGISTER

RESOLVED

That the revised Risk Register of Lukhanji Municipality as at April 2011 submitted by Ernst & Young, be noted.

6. REVISED INTERNAL AUDIT PLANS: 2011 TO 2013

RESOLVED

That the revised Internal Audit Plans of Lukhanji Municipality for the period 2011 to 2013, be noted.

AUDIT 2

7. INTERNAL AUDIT REPORT ON REVENUE: ALIGNMENT OF TARIFFS WITH OPERATIONAL COSTS: LUKHANJI MUNICIPALITY

RESOLVED

(a) That the Internal Audit Report on Revenue: Alignment of Tariffs with Operational Costs dated 08 April 2011 as submitted by Ernst & Young, be noted.

(b) That it be noted, the Audit Committee raised a concerned with discontent regarding the rate of electricity theft which is 29% against insufficient funds of bulk meter reading purchasing.

8. INTERNAL AUDIT REPORT ON IMPLEMENTATION OF CREDIT CONTROL AND DEBT COLLECTION POLICY: LUKHANJI MUNICIPALITY

RESOLVED

That the Internal Audit Report on the Implementation of the Credit Control and Debt Collection Policy dated 07 April 2011 as submitted by Ernst & Young, be noted.

9. AUDIT COMMITTEE CHARTER: LUKHANJI MUNICIPALITY: 2011

RESOLVED

That the draft Audit Committee Charter for the Northern Cluster Municipalities of the Chris Hani District be approved.

10. AMENDED INTERNAL AUDIT REPORT: FACE VALUE DOCUMENTATION

RESOLVED

That the amended report dated 24 January 2011 submitted by the Internal Auditor on the Internal Audit of Face Value Documentation, be noted.

11. AUDIT ACTION PLAN: 2009/2010 FINANCIAL YEAR

RESOLVED

That Audit Action Plan to address issues raised by the Auditor General for the year ended 30 June 2010, be noted.

12. CLOSURE

The meeting terminated at 14:45.

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